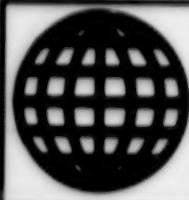


JPRS-CAR-89-095  
13 SEPTEMBER 1989



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# ***JPRS Report***

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# **China**

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# China

JPRS-CAR-89-095

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13 SEPTEMBER 1989

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### Equality Called Necessary To Fulfill May 4th Spirit

40050602a Beijing XINHUA WENZHAI /CHINA DIGEST] in Chinese No 5, 25 May 89 pp 152-153

[Article by Wei Minglian 7614 2494 1670: "May 4th Movement Flawed by Disregard For Equality"]

[Text] "Democracy" and "science," the two slogans of the May 4th Movement, basically sum up what it was all about. It is clear what "democracy" means; no further explanation is necessary. "Science," on the other hand, actually refers to freedom of thought. So another way of putting "democracy" and "science" is "democracy" and "freedom." This is the precise meaning of the May 4th slogans.

Clearly, another basic premise of modern human civilization—"equality"—was absent from the slogans of the May 4th Movement.

The idea of equality deeply colored the May 4th enlightenment movement. During the movement, there were discussions on "equality between the sexes" and "equality on the job." There were thoughtful references to equality in other discussions on democracy and science as well. However, rarely was equality in the overall social context elevated into an independent slogan or discussed as an independent topic. In fact, the ideological community was not very interested in the idea of equality during the May 4th Movement.

Equality has a special meaning that democracy and science (or freedom) cannot replace. That equality was not a slogan of the May 4th Movement was precisely its fatal flaw and also explains in part why equality has failed to really put down roots in China even today.

### Equality as the Starting Point and First Stage of the Development of Modern Human Civilization

In the history of ideas, equality, democracy, and liberty were born simultaneously during the Enlightenment in the West in the 17th and 18th centuries and went through a historical evolution in modern cultural life. And the starting point and first stage of this evolution was none other than equality.

History makes it clear that equality was the greatest achievement of the initial stage of modern Western civilization. As a result of this achievement, Western society totally liberated itself from the yoke of the medieval social caste system and privilege system, provided the necessary environment for the commodity economy, which is inherently equal, and created the historical prerequisites for the Industrial Revolution and the arrival of the age of the commodity. In the early days of modern Western civilization, when equality was firmly established as the cardinal value, democracy and liberty came under repeated attacks, but the commodity economy developed rapidly. Only later was democracy put on the agenda. Beginning in the 1860's and 1870's, a coherent modern democratic political system gradually

took shape as a string of institutions—general elections, legal political opposition, political parties, cabinet responsibility, civil service system—became established. Only then did modern civilization in the West ascend to the second stage—democracy. Liberty came decades later at the end of World War II.

Many Western political thinkers, from Rousseau, Tocqueville, Lei Lu [0519 7627], and Luo Er Si [5012 1422 2448], to such contemporaries as Ke En [4430 1869] and Bell, have written extensively on the decisive importance of equality in modern civilization. To them, equality is the most basic social value in modern civilization and a precondition for democracy and liberty. If there is no basic difference in the status of the members of a group of individuals, it follows as a matter of course that they should exercise sovereignty jointly, share management equally, and express their opinions freely. These thinkers have also made the profound point that the disregard for equality may be less noticeable than that of democracy or liberty, but does far more harm to civilization.

Although their methods of thinking and expression were different, classical Marxist writers also acknowledged the important role played by equality in modern civilization. Lenin, for instance, stressed repeatedly that equality "is the fullest expression of the bourgeois revolution."<sup>1</sup> He also pointed out, "The idea of equality is the most revolutionary in the struggle against autocracy."<sup>2</sup> Similarly, equality is the foremost principle in this struggle.

The May 4th Movement represents the first great march of the Chinese people toward modern civilization. Yet, equality was absent from the banner of this march, which must be described as a fatal flaw.

The slogans of democracy and science put forward by the May 4th Movement were not only one of the greatest ideological achievements of China in this century, but also constitute an eternal treasure trove of the Chinese people. It is impossible to exaggerate their importance for social progress in China and the need for us to resurrect such a tradition today. As a matter of fact, the very fact that democracy and science survived for 70 years as the spiritual essence of our time and are still going strong testifies to their intrinsic value.

Even as we make the above value judgment, we must be clear-headed enough to realize that the slogans of democracy and science have had little practical social effect. In contrast, a simple and straightforward "overthrow the local tyrants and divide the land" struck a responsive chord among China's toiling masses and other people of vision and righteousness, mobilizing and inspiring them to rally around it. On the other hand, people like Cai Yuanpei [5591 0337 1014] and Hu Shi [5170 6624] advocated democracy and science for decades and numerous scholars have penned countless brilliant treatises, but such concepts remain confined to a narrow circle of intellectuals without much of an impact on society and the general public.

In my opinion, the failure of democracy and science to become a reality in China can be explained by a famous saying by Engels: "The extent to which a theory is actualized in a nation depends first and foremost on the extent to which the theory satisfies the nation's basic needs." Needless to say, I am not suggesting that democracy and science do not basically meet the real needs of China, only that they do not fully satisfy such needs. Specifically, they do not fully satisfy the need for equality in the 20th century.

### **Why the Leaders of the May 4th Movement Disregarded Equality**

There are complex reasons why Chen Duxiu [7115 3747 4423], Cai Yuanpei, and Hu Shi, who mastered both Eastern and Western learning, erred by disregarding a common thing like equality.

Let us first look at the social background of the time. In the early days of the Republic of China, the urgent task of opposing the restoration of the monarchy and combating Confucian superstition diverted May 4th thinkers from issues like equality.

At the beginning, Yuan Shikai [5913 0013 0418] and Zhang Xun [1728 8113] twice revived the monarchy. In the ideological community, Kang Yuwei [1660 2589 3634] called for the "establishment of Confucianism as state religion" while spiritualists preached mysticism and superstition. Since these bizarre events were what directly led to the May 4th Movement, movement leaders considered it their primary mission to oppose autocracy and superstition. Accordingly, they purposefully invited the natural enemies of autocracy and superstition—democracy and science—from the arsenal of modern civilization. It was the very real danger posed by autocracy and superstition that kept May 4th leaders intellectually preoccupied with democracy and liberty throughout, thereby diverting their attention from equality and interfering with their contemplation on equality.

Next let us examine the social historical background. The hidden mechanisms of inequality in the Chinese social structure prevented the thinkers of the May 4th Movement from delving deeply into the issue of equality.

In feudal societies of the West, inequality derived mostly from land ownership by the feudal lord and a hereditary nobility system. By virtue of its membership in the social hierarchy and nobility, a family could own land and exercise power and influence generation after generation and was entitled to such legal privileges as exemption from taxes, monopoly, acting as judges, and exploiting peasants. Compared to its Western counterpart, China's nobility had fewer privileges provided by law. Unlike the West, there was no nobility in China that was prominent generation after generation, let alone a royal family like the Hapsburg or the Hohenzollern houses that flourished for over a thousand years, the only exception being the

family of Confucius. There had always been a polarization between the rich and the poor and between those in power and those out of power in Chinese society. However, wealth and power were redistributed frequently, imparting a greater degree of fluidity to the dual polarization. Roles changed often or the possibility existed of such changes. These subtle hidden phenomena were well suited to China's economy of scarcity and succeeded in muting the effects of social inequality and related issues. While philosophers of the Enlightenment in the West were confronted directly with a blatantly unequal society that was rigidly stratified and ridden with privileges, here in China thinkers like Chen Duxiu, Cai Yuanpei, and Hu Shi were lulled into a sense of complacency regarding inequality by its hidden nature. As a result, there were no in-depth inquiries into the issue.

Then there was the spiritual background of the time. The ideological mainstream in the West in the late 19th century and early 20th century emphasized democracy and liberty, not equality. This made it all but inevitable for thinkers of the May 4th Movement to ignore equality.

The early days of the May 4th Movement were entirely under the glow of Western learning. According to a Western study, the ideological mainstream in China in the May 4th period tended to mirror that in the West, with the lapse in time between the two no more than 3 to 5 years. In other words, what was popular in the West became popular in China at almost the same time. As noted above, since the 1860's and 1870's, the West, having resolved the problem of inequality and made a successful transition to modern democracy, was beginning to scale the heights of liberty. Thus, the new emphasis in Western thought at the time was democracy and liberty. Almost an entire generation of Western thinkers, from Bian Qin [6708 3084] and Wilson to Gu De Nuo [0657 1795 6179], devoted themselves to the perfection of the democratic political system and the preservation of individual liberty. At the beginning of the 20th century, Dewey incorporated democracy and science into his philosophy of pragmatism, thereby reinforcing the emphasis in Western thought on democracy and liberty. These developments definitely produced a bias on the part of Chinese thinkers in favor of democracy and liberty, a bias foreshadowed in Yan Fu's [0917 1788] slogan in the waning days of the Qing Dynasty: "Make liberty the base, and put democracy to practical use." This trend became even more dominant when the May 4th Movement broke out. May 4th thinkers, it must be said, lacked a sense of history. Western thinkers turned their attention to democracy and liberty after resolving the issue of equality, a step that was in line with the progression of history. In contrast, Chen Duxiu, Cai Yuanpei, and Hu Shi were aware of only the prevailing thought in the West at the time, ignoring what happened in the past. Oblivious of the fact that today builds on yesterday, they set out to duplicate in China, which still was languishing in the past, what was current in the West, namely democracy and liberty, overlooking the

fact that equality was what China needed most urgently. The disregard for equality by the highly Western-minded leaders of the May 4th Movement had something to do with what was happening in Western thought at the time. In addition, the fiercely antitradition attitude of the May 4th thinkers also made them reluctant to look for the idea of equality and the special political galvanizing effect of its slogan in Chinese tradition.

#### Significance and Methods of Furthering the May 4th Spirit

This writer is an absolute believer in the leaders of the May 4th Movement and their slogans—democracy and science. However, if China, after 7 decades of setbacks and false starts, is to further the spiritual tradition of the May 4th Movement, what is the most important need? Quite simply, equality, for the following reasons:

1. Politically, equality is the natural enemy of privilege. Privileges enjoyed by cadres in day-to-day life and the resultant corruption are the most serious problem in Chinese society today. The most effective antidote to privilege is equality. History has proved time and again that equality does much more damage to privilege than democracy and liberty because equality has always been incompatible with privilege. Therefore, only after privilege gives way to equality can a political order be set up for the new society and only then could the prerequisites for an honest government and political democracy emerge.

2. Economically, equality lies at the very heart of the new socialist commodity economy. Commodities are inherently equal and demand an environment where equality prevails. Only amid fair competition on the basis of equality can a socialist commodity economy develop healthily. Conversely, amid unfair competition heavily colored by privilege (feudal monopolies), the socialist commodity economy is bound to be distorted and degenerate into a feudal commodity economy. Witness the official profiteering that has been running amuck in the economy recently.

3. Philosophically, equality is the primary engine of the transformation of social ideas. Tocqueville argued that equality is an irresistible force for progress and change in social concepts. In China, equality is particularly powerful in mobilizing the masses to change social concepts. Equality is something we cannot ignore if changes in ideas so passionately advocated by the ideological and theoretical circles are to transcend the narrow confines of a small group of intellectuals and become a real social movement.

4. From the social perspective, equality can serve as an important centripetal force reuniting the Chinese nation. The unexpected chain of traumatic events resulting from a decade of reform has greatly weakened our national cohesiveness, aided to a large extent by inequality of different forms.

To overcome this situation, we must eradicate all kinds of unequal phenomena based on privilege in order to revive the spirit of national unity.

It must be pointed out that we cannot discuss equality in isolation, particularly the equality of results (that is, low-level egalitarianism to which the Chinese are so partial.) We must take the continuation of the spirit of the May 4th Movement as our starting point and integrate equality with democracy and liberty organically. We must vow to remember equality forever in order to correct the error committed by the leaders of the May 4th Movement and bring their ideas more in line with the inevitable course of modern civilization and the special conditions of Chinese society so that they will bear fruit sooner. We depend on democracy and science to bring about the healthy transition of equality from a lower level to a higher level (equality of opportunity.) (In my opinion, Mao Zedong's failure to accomplish this transition had a lot to do with his disregard for democracy and science.) This is the only way to accomplish the glorious historic mission of truly carrying forward the spirit of the May 4th Movement.

Only under the common glow of equality, democracy, and science can we reach the modern civilization that the leaders of the May 4th Movement hailed. This is the conclusion of this article.

#### Footnotes

1. See *Complete Works of Lenin*, Chapters 10 and 12.
2. *Ibid.*, Chapter 10, p 213.

#### Intellectuals Debate Meaning, Significance of May 4th Movement

40050602b Beijing XINHUA WENZHAI [CHINA DIGEST] in Chinese No 5, 25 May 89 p 154

[Article by Zhao Qingzhi 6392 3237 3112: "Lessons of the May 4th Movement for Young People Today"]

[Text] On 16 January 1989 the CYL [Communist Youth League] Central Committee invited some scholars and experts from the field of social science in the capital to a symposium marking the 70th anniversary of the May 4th Movement. Participants included Yu Guangyuan [0060 0342 6678], Ding Shouhuo [0002 1343 0735], Pang Pu [1690 2613], He Xin [0149 2450], Zhu Yingui [2612 5593 6311], and Yang Baikui [2799 4102 2247], all from the Chinese Academy of Social Sciences; Sha Jianshun [3097 0256 1327], Party History Research Office of the party school under the CPC Central Committee; Peng Ming [1756 2494] and Gao Fang [7559 2397], China People's University; Xing Bisi [6717 6321 1835], CPC Central Committee party school; Luo Rongqu [5012 2837 3255] and Li Zhonghua [2621 0022 5478], Beijing University; Chen Gaosu [7115 2640 5685], Ministry of Radio, Film, and Television; and Liu Yandong [0491 1693 2639], secretariat of the CYL Central Committee.

Heated discussions took place as the participants reassessed the May 4th Movement and its spirit, argued about democracy and science, and discussed ways in which young people today can continue and carry forward the glorious tradition of the movement.

How should we interpret and evaluate the May 4th Movement? Several opinions were put forward at the meeting. 1) The May 4th Movement was the greatest revolutionary movement in modern Chinese history. It introduced Marxism to China and gave birth to the CPC. 2) The May 4th Movement nurtured an abundant crop of advanced and outstanding intellectuals, who can be divided into two groups: Marxist intellectuals and modern-thinking scholars, experts, and scientists. Our tendency in the past was to slight the latter group. That is not fair. They must be reassessed. 3) The May 4th Movement was our cultural enlightenment. It awoke the masses and inspired them to advocate the scientific spirit and cherish scientific knowledge. 4) As a movement, the May 4th Movement was different from the enlightenment movement that began in 1915. After the May 4th Movement, the national salvation movement took precedence over the enlightenment movement and the latter came to an end. 5) The May 4th Movement was one in which we "reassessed all values." That is, we renounced completely all old culture, all old traditions. In the process of rejection, however, we went so far as to reject everything Chinese and embrace everything foreign. This kind of mechanical imitation has affected China's development. 6) The May 4th Movement was an emotional, non-irrational movement. It had an evolutionary relationship with the Cultural Revolution. The latter inherited the former's tradition of criticizing culture. 7) The May 4th Movement gave birth to radicalism. The cultural nihilism, national nihilism, and value nihilism characteristic of young people today have their origins in the May 4th Movement. 8) Apart from its spirit of openness and spirit of resisting power, everything else about the May 4th Movement should be rejected. The May 4th Movement criticized humanity, justice, and virtue. As a result, people were left with no standards to make value judgments, leading to social moral decay. The May 4th Movement championed liberation of the lower strata and introduced the theory of rule by the lower strata from the West. The marriage between Western lower culture and China's secret-society and patriarchal clan culture has been disastrous for Chinese society. The May 4th Movement's total antitraditionalism arose from a misunderstanding of Confucianism. Its dismissal of Chinese society as utterly worthless is an example of historical nihilism.

What is the central idea of the May 4th Movement? Symposium participants expressed different opinions. 1) Patriotism. The May 4th Movement was a struggle for the sovereignty of Qingdao, a struggle to safeguard national rights and interests. 2) Science and democracy. 3) National salvation. Relentless political encroachment by the imperialists forced young people to take to the streets and wage a struggle. 4) The reevaluation of all

values. The May 4th Movement was the rejection of all traditions and old culture using democracy and science.

What do democracy and science really mean? Symposium participants offered the following opinions: 1) Democracy means "by the people," not "for the people." It means the people making decisions on their own, not making decisions for them. According to DONGFENG ZAZHI, which was published during the May 4th Movement, democracy meant valuing the people more than the monarch. Not so in fact. That is the idea of regarding people as the source, not democracy. 2) Democracy is a relative term. Relative to capitalist democracy, socialist democracy is a higher form of democracy. 3) Socialist democracy is democracy for the masses, not so-called "elitist democracy." 4) Democracy should be all-embracing. What modern democracy demands is not democracy for the majority, but democracy that includes everybody. Every individual should have his own method of expression and existence. So-called democracy for the majority is in fact a form of tyranny. 5) The essence of science is seeking truth from facts. It includes the scientific attitude, scientific spirit, scientific way of life, and scientific method of thinking. 6) The characteristics of science are effectiveness and method of verification. In this light, Hu Shi's [5170 6624] empiricism or pragmatism must be reevaluated.

Symposium participants also expressed different opinions on how young people today should carry forward and further the May 4th tradition. Some suggested that young people further the scientific and democratic tradition of the May 4th Movement, emulate the spirit of truth-seeking of their May 4th counterparts, and further their spirit of national salvation and patriotism. Young people today must realize that they have the same mission of "national salvation" that the May 4th Movement had. Now as then, China faces the danger of being "eliminated." Others argued that young people today should continue the spirit of studying hard and earnestly of the May 4th Movement. They should hit the books instead of meddling in politics too soon. They should "spend more time researching issues and less time talking about 'isms.'" They should follow the road of national salvation through education. It was also noted that we should rethink our tradition in the spirit of the May 4th Movement and further its critical spirit critically in order to elevate our cultural values and raise our cultural consciousness.

#### **Yan Jiaqi's Views on Governmental System**

40050568 Hong Kong MING PAO YUE KAN /MING PAO MONTHLY/ in Chinese No 282, Jun 89 pp 7-8

[Article recorded by Lin Ts'u-fen 2651 5050 5358: "Professor Yan Jiaqi 0917 1367 0366 on the Beijing Student Movement"]

[Text] This student movement is the result of the piling up of various contradictions in China over recent years. In particular, the economic reform on the one hand

promotes marketization, but, because China lacks a clear concept of the property rights system, the progress of marketization is restricted; also, the double-track price policy has created all sorts of unfair phenomena in distribution. In particular, the officials have run roughshod, and corruption in the party and government have gradually incensed the entire country. This anger has been building up for 2 or 3 years, but it cannot be drained off through the channel of "free speech," and the government cannot find a way to solve the problems.

Therefore, I say that we must squarely face the problems in reform. Inflation is now very serious. Deng Xiaoping pushes price reform and the establishment of a market economy, but he does not take into consideration objective conditions and various factors. He wants to tide over this crisis by his individual orders, with the result that there is a nationwide scramble to buy things, which more than ever lands the country's economy in a predicament. Hu Yaobang passed away this year, causing the student movement; the main reason being that his recall from office while he was in his prime was unjust; in addition, it is impossible to solve various problems in economic reform, and the people cannot see their future clearly.

Under these circumstances the authorities have unexpectedly taken repressive measures.

On 1 May, at a session of the "Democratic League" Central Committee chaired by Fei Xiaotong [6316 1321 6639], I said: In recent years Deng Xiaoping has committed serious mistakes on three issues (in earlier years his handling of the issues of Wei Jingsheng [7614 0074 3932] and the Democracy Tablet, as well as his anti-spiritual pollution campaign, were also mistakes): 1) his anti-bourgeois liberalization drive, his ousting Hu Yaobang from office, and his mistaken treatment of the student movement of 1986; 2) his dashing through the barrier of price reform; and 3) his adoption of a tough attitude of repression toward the student movement to mourn Hu Yaobang, declaring it be an upheaval, and his speech that determined the keynote of the "26 April" editorial.

These mistakes highlight a problem: China's political system is completely undemocratic and is completely a system of "what one person says counts." People are coming to understand this point more and more. The Central Politburo and the State Council in reality have no power; only Deng Xiaoping's will is paramount. Actually, Deng Xiaoping has taken the path that Mao Zedong took in his later years, but Mao Zedong and Deng Xiaoping are different. Mao Zedong made a very big contribution to the establishment of the People's Republic of China. Deng Xiaoping, of course, also made a contribution, but everybody knows that Mao's contribution was much bigger than Deng's. As a leading figure, Deng's image cannot be compared to Mao's, but he is repeating Mao Zedong's mistakes in his later years. This political system, which is completely a system of "what

one person says counts," takes on the garb of socialism, but in reality it is the politics of despotism.

This politics of despotism is extremely clearly manifested in a series of actions taken by Deng Xiaoping in recent years. Now in China the intellectual circles, theoretical circles, and cultural circles, as well as the people of the entire country, already recognize that Deng Xiaoping's rule is despotic. This recognition is an extremely big advance in China's politics, and it will have a very big effect on future political reform. It is like a person who has contracted a serious disease: His condition must be ascertained before medicine is prescribed for him.

Given the reality of its despotism in politics, China cannot succeed in its modernization. This politics of despotism is different from the feudal politics of despotism, and it may be called "social despotism."

In reality, Deng Xiaoping is China's last emperor. This student movement is precisely a movement to topple this last emperor. During this process we do not use force; we only exercise our rights as citizens to oppose this politics of despotism. In the past, a high-level leader could not be criticized at will, and only on extremely small issues could complaints about him be made. For example, some NPC [National People's Congress] representatives once suggested that Deng Xiaoping stop smoking, and this suggestion was allowable; but this student movement condemns and criticizes, and even denounces, the perverse acts of Li Peng, Deng Xiaoping, and others. Originally, this was the proper right of a citizen. Since 1949, Chinese citizens have never been able to exercise this right, but now this right has become a fact.

The criticism of Deng Xiaoping during the Cultural Revolution and the criticism of him at this time are different. In those years, Deng Xiaoping was criticized under Mao Zedong's authority, and also with Mao Zedong's approval, in order to strengthen Mao Zedong's politics of despotism; this time, it is a case of the people denouncing, resisting, and protesting the perverse acts of Deng Xiaoping and Li Peng; it is a rational act, and it comes from the people's hearts. It is something that has never occurred in Chinese and Soviet history. In China in the past there was criticism of Mao Zedong, but that was after Mao's death; now the one being denounced is Deng Xiaoping, the holder of supreme power. This may be said to be the dawn of China's democratic politics. From now on, when any person rises to be premier and any party leader rises to power, if his acts go against the will of the people, the people will similarly criticize and even protest. Thus, there is greater hope for China's political reform in the nineties.

The student movement has revealed a serious malpractice in China's political system: It is impossible to call together the 3,000 representatives of the Chinese NPC. I think that the NPC should comprise only 400 to 500 persons, that they should be full-time representatives,

and that there be a mechanism for their meeting automatically in regular sessions and under urgent circumstances. There is now no mechanism for the NPC Standing Committee to meet automatically! The members of this committee should hold regular meetings, so that when they encounter urgent problems they can solve them immediately.

In addition, the people's representatives must be directly elected. China should establish parliamentary politics, and the people's parliamentarians should be able to reflect and express the people's will immediately. If a people's parliamentarian goes against the people's will, he will not be a people's parliamentarian the next time. Parliamentary politics must be flexible, and an organization of 3,000 persons like the present one cannot engage in parliamentary politics. This student movement has set the direction for future political reform.

This student movement has also revealed another very serious problem: Above the government is a bigger "government," namely, the Central Military Commission, and it is precisely this commission that is the source of Deng Xiaoping's power.

There is no other country in which the supreme military command is administratively separate from the government. In ancient and modern history there are only two examples of a separately established military regime: One was Japan in World War II, and the other is China in modern times. This is the factor causing the national crisis. That Deng Xiaoping's authority overrides that of Zhao Ziyang and Li Peng, and overrides that of the entire Central Politburo as well as the State Council, is because he is the chairman of the Central Military Commission.

Therefore, a future revised constitution must clearly put in writing the principle of the nationalization of the armed forces. The armed forces must be put completely under the control of the government and must be themselves depoliticized.

The martial law that has now been proclaimed has no basis—without armed rebellion or invasion by a foreign power, Li Peng's proclamation of martial law is illegal. Li Peng should be brought to trial. Wan Li [5502 6849] should, by constitutional and legal means, come forth and solve this problem.

Deng Xiaoping has said that China cannot have a government in which the legislative, executive, and judicial powers are separated. If this spurs Deng Xiaoping's ouster from office, it will also spur the three-way separation of powers. Of course, China's three-way separation of powers cannot be a copy of an American or British pattern. China must have its own system in which there is mutual separation of powers and mutual checks and balances. An extremely important question is how a parliament would achieve checks and balances in the government. In addition, the judicature must be independent. After Deng Xiaoping is gone, the concept of the separation of powers will be acknowledged.

Direct elections, separation of powers and checks and balances, independence of the judicature, nationalization of the armed forces, and so forth, should be the basic principles of China's political reform.

(Professor Yan Jiaqi is a former director of the Politics Institute of the Chinese Academy of Social Sciences, and is now a researcher in that institute. With his wife Gao [character illegible] [7559 ....] he wrote a book entitled *History of the Ten Years of China's Cultural Revolution*. Because of an imminent deadline for this article, Professor Yan did not get a chance to look over the draft.)

## NATIONAL AFFAIRS, POLICY

### Wu Jinglian Evaluates Recent Rectification

40060656 Beijing GAIGE [REFORM] in Chinese  
No. 3, 20 May 89 pp 55-59

[Article by Wu Jinglian 0702 2417 8834: "An Evaluation of Rectification Measures Taken Over the Last Few Months"]

[Text] Currently, the people feel somewhat at ease, rising commodity prices are cooling down, and all around panic buying has subsided because we have, over the last five months, taken a series of measures to control investment and spending on projects, tightened up fixed asset investment, and looked into and dealt with behavior related to "chaotic price hikes." As a consequence, some comrades have begun to show a mood of "relaxation," and gradually we hear more and more calls for relaxation of the overall control over currency. Economic circles are now engaging in frequent discussion about the policies we should now adopt. All sorts of prescriptions have been cooked up for dealing with future rectification work, as well as the tight flow of funds, and the phenomenon of currency "circulating outside of the system." However, just as any correct prescription must be based on a correct diagnosis, so too, only through a correct assessment of the causes of inflation can we hope to arrive at an effective plan for treatment. This is to say, first we must evaluate to what extent rectification work over the last five months has touched on the causes of our current bout with serious inflation, and then we must use this evaluation to assess whether or not the medicine of our rectification measures has been suitable for the illness. Only then can we further determine the correct path of treatment.

#### I. Causes of Our Current Bout With Serious Inflation

There are two common ways of explaining the explosive rise in commodity prices in 1988. One of these views goes like this—the explosive inflation we felt in 1988 is a result of our putting too much currency in circulation over many years. It is a true case of inflation. That is, commodity prices will rise continually because of the demand created by too much currency in circulation. This is not a case of one-time hike in commodity prices brought about by price adjustments. Those who maintain this view will point out that the growing expectation of citizens that prices would rise during August and September led to a wave of savings withdrawals and panic buying. This has only exacerbated inflation. There is a certain reasonableness to this sentiment. However, it fails to explain how the expectation came about in the minds of the citizenry that prices would rise. If in past years we did not have even moderate inflation, and if inflation had not risen to double-digit levels at the start of 1988, how can a sudden expectation of inflation arise in the fall of that year?

The statistics show that since 1984, currency supply has greatly exceeded growth in production. By examining the relationships between the growth in the gross national product (GNP) and the growth in cash (MO) and cash plus the various types of savings (Ma) since 1984, we can get a rough idea of how much the currency overissuance and social demand have exceeded overall social supply:

	1984	1985	1986	1987
GNP Growth for the Year	14.5%	13.0%	8.3%	10.6%
Year End Cash Growth	49.5%	24.7%	23.3%	19.4%
Year End Growth in Cash Plus Savings	39.2%	17.0%	19.3%	24.8%

The growth in currency supply is not completely an exogenous variable. It is true that the central bank has lacked the necessary independence to execute its currency stabilizing function. Also, the central bank has not consistently carried out a tight currency policy and it has caved in to pressures to issue more currency. Both of these are causes for the growth in currency supply. In addition, however, the economy itself has spurred on the overissuance of currency. This also has been a major cause. The crux of the latter point has been to go all out to maintain the national economy, particularly high speed industrial growth, under conditions where the national economy as a whole has not been very efficient.

The overall dismal efficiency in our national economy shows itself above all in our inefficient distribution of resources.

With regard to interdepartmental resource distribution, in recent years our highly profitable processing industry has developed blindly. We have grown mad about color televisions, electric refrigerators, pull tab cans, beer, electric stoves, and one flood has followed another. New growth in production capacity has doubled and redoubled, surpassing all reasonable demand. This has wasted huge amounts of resources. At the same time, shortages in agricultural products, raw materials, energy resources, and transportation have steadily increased. We have not been able to bring our enormous development capacity into play because work is held up due to lack of materials, electricity, or shipping resources. This has acted like an anchor, dragging the entire national economy down.

With regard to inter-regional resource distribution, since 1980 each region has been in competition with the other, setting up its own independent economic system, and using administrative powers and monopoly-controlled, fixed low prices to set up and develop its own processing industry. This sort of practice that runs counter to the policy of "developing one's strengths and avoiding one's weaknesses to bring into play the areas where one is superior" brings a "sameness" to the economies of the various places and worsens the regional economic structure. In 1980, many provinces, cities, counties, and even

towns grew excited about setting up cigarette rolling factories, small wine plants and other kinds of "new, five small industries." These, in turn, competed with large industry for raw materials and energy resources. Later, we saw the people grow crazy about "small aluminum plants," "small oil refineries," and "small cotton mills" and this either spurred on or compelled the various regions and departments to adopt regional and departmental protectionist policies, lock out other regions and departments, treat their "own" enterprises preferentially, and support "their own" enterprises in unfair competition. This led to serious separation of markets and worsened the regional distribution of resources. Urging some of the regions and departments to "involve" their neighbors and "let them into the circle" in the fight against higher prices only exacerbated the macroeconomic chaos. The fights for raw materials and the "wars" over export commodities escalated with each blow. With high-priced purchases at home and low-priced sold-out overseas, causing "profit" flow out of China in large volumes.

With regard to resource distribution among enterprises: the various regions and departments have gone out of their way to protect "their own" enterprises; small enterprises have been given free rein while large enterprises have been controlled to death; it is quite common to see power and influence used to effectuate unfair competition. All of this has led to such abnormal situations as the small crowding out the large, the inferior crowding out the superior, and "the starting up of the inefficient while the efficient is brought to a halt." All of this has brought down the efficiency of resource distribution.

Another manifestation of inefficiency lies in the inefficiency of microuse caused by low enthusiasm among enterprise managers and workers. A particularly serious phenomenon here is the "unequal allocation of hard times and good times" and "unjust allocation" as well as other similar things brought about through discrimination and the "dual track" pricing system (including commodity prices, and money prices—interest rates and foreign exchange prices) which have greatly harmed the enthusiasm of managers and workers alike. Because it is much easier to make profits from obtaining low-priced raw materials, low interest loans, and foreign currency at official prices, as well as selling notes and bonds and approved earnings and profits than it is from improving management and administration, enterprise managers have no choice but to devote their primary energies to looking for ways that will lead to a quick profit and currying special favor. When this is happening, it is difficult to implement the measures demanded by reform such as "reward the superior and punish the inferior, and let the superior emerge victorious and discard the inferior." Because of the proliferation of profit-seeking through the use of power, not only has unjust allocation become worse, but the party and the government have become corrupted. Some calculate that the total amount of "rental money" produced by "dual-track-pricing" reached approximately 200 billion yuan

in 1987, about 20 percent of the national income that year. A considerable portion of this "rental money" went into the pockets of a handful of corrupt officials, private profiteers, and official profiteers, and was not applied toward creating any kind of wealth for society. This represents a false cost of enormous proportions!

Low efficiency signifies lots of investment and spending on projects with not much to show for it, and this kind of investing will turn into demand, produce and manifest as supply, and under conditions of low efficiency maintain a high speed growth. In this kind of situation, it is inevitable to have overall demand exceed overall supply. On the one hand, resources are wasted, structures become worse, and efficiency drops. On the other hand, increased awards of rights and powers, as well as permission to retain profits, leads to continually increasing expenditures; thus, national income distribution increasingly takes the form of individual income, the portion of income that goes to society, and particularly to the central government, becomes increasingly smaller. The following represents changes in national income distribution over the last 10 years:

#### Changes to National Income Distribution

Year	Income to Society	Income to Enterprises	Income to Individuals	Income to Other Recipients
1978	33.7	11.6	53.3	1.4
1981	24.1	11.8	62.5	1.6
1986	22.6	10.6	65.0	1.8

As the table shows, the "gap" between state income and expenses has grown ever larger, and the state isn't making enough to pay its expenses. Aside from directly remedying the financial deficit, there are two ways of solving this problem: first, borrow money. However, state borrowing is naturally limited in possible scope. When state borrowing reaches a certain point, only the second method can be relied upon—issuing financial notes. In the last few years, more and more notes have been issued, but commodity prices have continued to climb.

#### II. Evaluating the Results of Rectification Over the Last Five Months

If the above diagnosis is correct, we should adopt a plan of "putting everything in order all at once." We should focus not only on keeping commodity prices down, but more importantly we should give attention to implementing drastic measures, improving mechanisms, and heightening efficiency. Only in this way can we suppress demand, improve supply, and block off the sources of currency oversupply.

On 1 December 1988, Xue Muqiao [5641 2550 2890], Liu Guoguang [0491 0948 0342], and I presented our views on rectification to leading comrades of the party

central committee. Our views can be roughly summed up in the following four points: 1) Persist in tightening up overall amounts, and do not repeat the mistake we made in the first half of 1986 of relaxing control over the currency. 2) We must upgrade the structures as we tighten up on overall amounts, and having done this, short term drops in production will not be cause for worry. 3) To ensure that we achieve the above-mentioned two points, we must make systemic adjustments. 4) We cannot count on administrative means to keep commodity prices down in the long run. Rather, we should watch for opportunities to promote reforms in our markets. Currently, I still subscribe to these views.

It seems that the first and second points are acceptable to most people even today. Thus, we might as well use these two points as criteria for analyzing the correctness of rectification measures taken over the last five months.

Some results have been achieved after five months of administering and rectifying. Overall panic buying has subsided, rising commodity prices have begun to taper off, we have reduced the overall scope of fixed assets under the ownership by the whole people system by 10 percent, and we have managed to place certain control over the growth in purchasing power of social groups and blocks.

However, we cannot say at this point that the situation is stabilized and taking a turn for the better.

First, looking at overall amounts, we have not reduced the scope of fixed asset investment to our predetermined target. Of the items that were cut out, over half were "shadow projects" that were slated sometime after fall of last year but were not yet begun. We still have not had any strong measures that will control the soaring growth in consumer demand that is becoming our major threat.

Second, the problems appear a bit greater when we take a look at our structures. In the area of enterprise organizational structures, industrial growth in January dropped to 8.3 percent, and in February it dropped to 7.5 percent. Enterprise owned by the whole people grew at a rate of 3.7 percent in January and 1.8 percent in February. But, township enterprises maintained high speed growth at 25 percent.

Looking at departmental structures, we see that in January electric home appliances, and cigarettes and wines maintained high speed growth, with their growth rates as follows: color televisions—51.6 percent, electric refrigerators—47.4 percent, beer—9.9 percent, and rolled cigarettes—6.2 percent. However, cotton yarn (a basic consumer good) dropped 17 percent, and synthetic fiber dropped 10 percent. An important manifestation of worsened structures is the way such "short line" departments as raw materials, transportation and shipping, agriculture, coal, electricity, and energy resources have become further "short"—to relative or absolute degrees. Growth rates in this area are: steel—9.8 percent, steel products—6.7 percent, coal—0.4 percent, crude oil—1.1 percent, generated electricity—0.1 percent.

It is evident from the foregoing that the worsened structures in such areas as departmental and enterprise distribution are major sources of our inflation. Key points for current adjustment work lie in altering this situation by making the structures better. However, judging from the circumstances in January and February, it appears that the situation has not been altered in the anticipated direction, on the contrary, it has tended to steadily become worse.

Why has this "defiant adjustment" occurred? We can trace the problem back to our seriously flawed systems that are currently operating. With each tightening we have made since 1981, people have tried to cope by, "you expand and I won't expand; you tighten up and I won't tighten up," and even, "let's start up a project at the same time we are discontinuing another, and move forward during times of criticism" and other such means whereby "policy from the top is met with counter-measures from below." Because of the greater emphasis on administrative divisions of power in recent years, the present situation is even more serious than in the past when we have tried to tighten things up. Regional government and departments at all levels now have even greater ability to protect their own items. The result is that items outside the plan, outside the budget, and not targeted as key items should be cut but they aren't. Macro-management departments only administer to key items within the plan and budget, and so to complete the plan of tightening up on overall investment amounts, they must cut out items that are urgent requirements for the national economy.

So-called adjustment is nothing more than redistributing precious resources in a better way. If the present system and the policy environment that fit is the primary cause of erroneous distribution of resources, then how do we plan and carry out a better redistribution of resources under a unified system? With the "defiant adjustment" that currently occurs, it should not surprise us that not only are resources prevented from flowing in directions of high efficiency, on the contrary, they are flowing in directions of low efficiency.

### III. Policy Proposals

Rectification work over the last five months illustrates that some of the deep-level factors that have led to our present inflation, particularly factors in the area of the economic system, are still exerting influence. This presents adjustment work with serious difficulties; at times we even see "defiant adjustment," and in order to overcome these obstacles, it seems that rectification work must pay more attention to the following items:

A. Hold out against those pressures demanding that we loosen control of overall amounts, persist in tightening up on demand, and control the supply of currency. Our current inflation is the result of an accumulation of problems over many years, and it would be unrealistic to hope to eliminate these problems over a short period of time and without causing any pain. We must prepare to

endure the various difficulties that will come with a tightening up of demand. Currently certain people in theoretical circles are calling for relaxed control over demand. They feel that we should increase supply to eliminate the disparity between supply and demand. Generally speaking, both increasing supply and suppressing demand are effective ways of reducing the disparity between supply and demand and suppressing inflation. Moreover, very little pain comes from increasing supply, and if we could actually do this, then what would be wrong with it? The problem is, as we have already pointed out, the Chinese national economy is currently operating at low efficiency, and if we use this foundation as a place to start increasing production, then investment spending will only increase, and this will make inflationary pressures even worse. Our experiences since 1986 show that with the situation as it is, we can only propose "improving supply," that is, increasing supply while attempting to make efficiency higher. We cannot call for "increased supply" to replace control over demand. If we do we will go down the same disastrous road we travelled in the second quarter of 1986.

**B. We must work harder in the area of adjusting economic structures and more effectively allocating and using resources.** To do this, we must resolutely implement policies that are "tilted" towards those products and enterprises that will heighten the overall efficiency of the national economy. We must give to these products and enterprises the funds, raw materials, energy resources, transport power, and preferential supply that comes from tightening up in the other areas. This will enable us to improve our product, regional, and enterprise organizational structures. We must clearly formulate a list of preferential investments and products, provide specific regulations for what will be protected, what will be abandoned, what will be limited, and what will be halted, and we must make a 100 percent effort to investigate and adjust each line of business and each region at every level. Only by upgrading our economic structures can we make a marked increase in the effective supply of domestic demand and foreign sales under conditions whereby overall investment does not increase or drops. In this way, we can ensure that the entire economy gradually takes a turn for the better and doesn't get bogged down.

**C. We must strengthen the adjustment and control powers of the central authorities** if we hope to implement and achieve the measures for adjusting the structures. Overall adjustment and control powers over financial revenues and expenditures, currency revenues and expenditures, and foreign exchange revenues and expenditures should be concentrated more in the hands of the central authorities. To accomplish this, such systems as financial contracting, foreign trade contracting, and the difference of savings and loans in component contracting should be appropriately adjusted in the area of taxation, while we should not reduce the overall amounts that remain in the hands of the various localities. we

should make adjustments in the methods we use to divide our profits, and the high taxes from such items as cigarettes and wines should be paid directly into the central budget and should not go into the base figure for profits in the area of foreign trade. we should make the proportion of retained foreign exchange the same for every department and region, and we should strengthen the administration of economic and trade departments over the foreign trade activity of the whole country, particularly import permits and export apportionment, and finally, we should change the method of setting up branches of the People's Bank of China according to administrative districts, tighten up secondary loans made by the central bank so as to control those elements with high capacity for putting currency into play, send down to the specialized banks guidelines for the scope of loans each quarter or each month, and strengthen the control of the central bank over the total scope of credit.

**D. During our course of stabilization, we should seek opportunities to promote reforms that will make us more market-based.** We cannot hope, in the long run, to keep overall price levels stable by freezing commodity prices. Of course, in determining whether any particular reform measure is now suitable for implementation, we should ask whether or not it will help us rectify and adjust ourselves to make a turn for the better. As for those highly irrational prices, such as interest rates, transport prices, and raw material prices, we should adopt those measures that contain both suitable adjustments and rigorous control as for those items that lie outside the ambit of the national economy and the peoples' livelihood, such as color televisions and high-grade cigarettes and wines, we should free them up to operate as they wish as soon as possible. The distribution of low-priced commodities, loans, and foreign exchange, among other things, should be made open to the public, and the distribution of import permits and export allocations should be open to all also, and should be supervised by society. We should study how to use competitive strength to improve structures and heighten results, and we shouldn't have administrative controls operating everywhere. We should not simply outlaw or prohibit certain companies and financial organs in their activities in certain territories of circulation, but rather we should make improvements and put them into normal channels of competition. Shortages of certain important staple commodities should be specially managed, and the huge profits that come with monopolization should go into the state coffers. We should do away with loopholes while improve management and administrative methods, taking pains to see that "official businesses" do not reappear. We should gradually move the enterprise contracting system toward a transitional system whereby profit distribution is standardized. We should put the shareholding system to a trial run. And, we should make improvements to curb the numerous abuses of the allocation system whereby, "wages are linked to results."

**E. In recent years, official corruption has become widespread, and it has already reached a stage where it wi-**

not be solved without determined efforts that are potentially painful. We must launch a movement to improve political ethics throughout the entire nation, and we must apply strict legal sanctions in punishing those guilty of such things as corruption, malfeasance, and the offering and receiving of bribes. Based on the actual situation in China, we should revive the regulation whereunder spouses and children of high-ranking officials cannot engage in commercial activities. If officials make use of their powers to enable relatives or friends to turn a profit, they should be dealt with according to party disciplinary regulations and the laws of the state. The wages of persons in party and government organs, the military, the police, the schools, and basic scientific research units should be guaranteed by the state. Seeking to "improve oneself" through business profits is a bad idea of self-destruction and it should be abolished immediately.

F. Actively create conditions, and prepare to take reforms to a further level of comprehensive depth. Complete resolution of the problem of inflation depends on our ability to initially establish an effective operational system—namely, the initial transformation of the old system into the new system. The importance and urgency of rectification and adjustment come not only from the necessity of overcoming economic chaos, but also from the requirement that we comprehensively deepen reforms, clear away obstacles, and create a premise to operate with. In the interests of deepening reforms, we should try in the next two or three years to prepare a comprehensive plan and program for coordinated implementation that includes the three areas of macro-adjustment and control, market organization, and enterprise mechanisms, and as the conditions become ripe we should implement these things according to schedule.

Granted, one can find scholars and leading departments with somewhat differing views on the points I have discussed. In the interest of achieving a consensus, we must bring together the actual results of the last 10 years of work experience and earnestly attempt to summarize them. We can begin this summarization work by reviewing the process as a whole. What situation did we face at each distinct stage, and what policy options did we propose to deal with it? What policy determinations did we then make? What results did we forecast at the time for our policy? What were the results after we began executing our policy? Which results were in accord with our original expectations and which weren't? Why did these results come about? And so forth. This type of summarization makes us a little smarter, and thus we become more capable of designing more correct and thorough policies. The real world will not allow us an eternity to come up with a good plan of action, and thus we should not dally too long nor waste too much time doing "paper economics" like we have in the past.

### Growing Demand for Consumption, Causes, Remedies

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[Article by Fan Yueming 4636 6460 2494 and Dai Riyong 2071 2480 1661 "Causes and Remedies for the Swell in Consumption Demand"]

[Text] Since 1984 our guiding thought in economic construction and economic system reform has been overanxious for quick success, and this has led to growing contradictions in our overall societal supply and demand. In particular, the last two years have seen comparatively serious swells in consumption demand and investment demand, and this has become a major reason for our current state of inflation and commodity supply imbalances. Thus, in our attempts to remedy inflation, aside from further tightening up society's investment demand, we must also act in a determined fashion to cut back on excessive growth in societal demand for consumption. Only in this way can we effectively keep inflation from getting further out of hand.

#### I. Basic Characteristics of the Current Swell in Consumption Demand

A. Year after year the income of city and village residents has increased faster than the development of production, creating imbalances in market supply and demand and making up the main part of the swell in consumption demand. As for the agricultural villages, the growth in the per capita net income of farmers is due primarily to increased nonagricultural production and higher prices for agricultural products. For these reasons, farmer per capita net income has grown faster than has development in agricultural production. According to a statistical analysis for the years 1984-1987, 43 percent of the increase in the per capita net income of farmers was accounted for by higher prices for agricultural by-products. Looking at the cities, the increase in the average wage earned by workers exceeded the increases in labor productivity. Comparing 1987 with 1983, labor productivity of industrial enterprises as a whole increased 29.4 percent and the average yearly increase was 6.7 percent. However, during the same period, the average labor wage increased 33.7 percent and the average yearly increase was 7.5 percent. In addition to this, nonwage sources of income for workers increased substantially. An examination of the matter yielded the following statistics: in 1984, 16.9 percent of the overall living expense of workers in the cities and villages accounting for non-wage sources of income soared to 29.4 percent in 1987. The average yearly increase was four percentage points.

Year after year the currency income of city and village residents has exceeded increases in production supply, leading to greater and greater disparities between market supply and demand and large scale increases in surplus

purchasing power. According to statistics, retail commodities for 1988 were valued at 790 billion yuan, a 160 percent increase over that of 1983. This is an historically unprecedented rate of growth. However, during the same period, the nationwide purchasing power for social commodities grew at an even greater rate. In 1988, there was about 870 billion yuan available for commodity purchases nationwide, a 180 percent increase over that of 1983. From this, we saw the gap between commodity sources and purchasing power grow from 5.6 billion yuan to 80 billion yuan. The increase in currency purchasing power greatly exceeded the capacity for production development (particularly agricultural and light industry development) to increase supply. By 1988, society's surplus purchasing power had already reached over 540 billion yuan, equivalent to the value of social retail commodities for the first nine months of that year.

B. At the same time that we have seen an excessively rapid increase in the overall income of residents, the contradictions of inequitable income distribution have grown daily, exacerbating the overall swell in consumption demand. First of all, incomes to individual and private enterprises have been excessively high, particularly so where certain individuals have exploited pricing opportunities and/or taken advantage of less-than-vigorous administration of tax matters, resorting to fraudulent practices, trafficking in smuggled goods, giving and receiving bribes, tax evasion and other such illegitimate means to illegally reap staggering profits. The second point is that illegal activities throughout the circulatory chains have allowed some to earn unjustly high incomes. Thirdly, certain policy measures have not been standardized, thus leading to wide disparities in the incomes accruing to varying lines of business. The incomes of some separated and retired personnel earned through re-employment have been rather high, and this has not been fully revealed. Added to this the fact that for the most part these persons do not comply with the reporting requirements for individual income and they evade individual income taxes, we see a certain sector of the population earning excessively high incomes. This leads to collaboration between enterprises and individuals and only worsens the overall swell in consumption demand.

C. Social groups have increased their consumption far too fast. In 1988, the group purchasing power of organs, social groups, enterprise blocks, and institutions reached 66.5 billion yuan, 2.6 times greater than that of 1983. This exceeds both increases in national income and in resident consumption. It is now fairly common to find conspicuous consumption, ostentatious displays of extravagance, and even a total disregard for economic and financial discipline, and a profusion of all sorts of subsidies and in-kind payments made to individuals disguised under other names for accounting purposes. Excessive increases in group and bloc consumption not only raise the selling price of consumer goods but also set a bad example for the man in the street and foster the spread of heavy consumption.

D. The contradictions of lower proportional state income and a state excessively burdened by the weight of its subsidies have grown more marked by the day. Of the distribution of national income, the proportion earned by the state has steadily decreased and that going to the individual resident has continually risen. According to one computation, in 1983, 62 percent of the national income distribution went to individual residents but this rose to 66 percent in 1987 while state income went from 29 percent to 25 percent. However, the state has undertaken to provide all sorts of additional financial subsidies to residents. Looking at the years 1986 and 1987, 9.9 and 10.2 percent respectively, of state domestic income was expended to provide direct price subsidies for the daily life commodities of city and village residents. Furthermore, this has steadily increased, thereby placing an exceedingly burdensome financial weight on the state's shoulders. In addition, while resident income has greatly shot up, corresponding changes in the consumption style of city and village workers under the partial state supply system have not been made and consumption of such things as rent, transportation, and medical care is still basically paid for by the state or by enterprises when the residents should be paying some of this themselves out of their incomes. Right now it amounts to welfare treatment of the individual. According to the computations of statistical data, despite the fact that living expenses of residents went up 230 percent between 1978 and 1985, consumption expenditures on such things as rent, water, electricity, transportation, and child care only grew 81.2 percent. Not only did the proportion of the living expenses expended by residents for rent, water, and electricity not go up, but it went from 2.3 percent and 1.5 percent respectively in 1957 to 1.1 percent and 1 percent in 1985. In order to maintain this consumption style under the partial supply by the state, each year the state takes it upon itself to pay out 80 or 90 billion yuan in subsidies for such things as transportation and rent. This irrational style of distribution leads, on the one hand, to rapid increases in resident income and developing contradictions between enormous purchasing power for consumer goods and narrow consumer goods markets. It leads, on the other hand, to sagging state financial power, thus causing enormous rifts between consumption demand structures and existing production structures. It also presents economic construction with two equally unappealing alternatives: if we want to ease the supply and demand contradictions in the consumer goods markets, then the primary direction for construction lies in the processing industry, which uses the consumer goods industry as a feeder line. However, rapid development in the processing industry will create contradictions between the production capability of the processing industry and the supply capabilities of basic industry and our infrastructure. But, if we want to make up for our infrastructural deficiencies, then the primary direction for construction lies in energy resources, raw materials, and other such basic industries. However, because of the decreasing proportion of financial strength in the hands of the state, and because of the large increases in subsidies to residents for living costs,

funds available for infrastructural construction will grow steadily more insufficient. Looking at national income distribution, although in recent years the savings rate has remained steadily above 30 percent, a considerable proportion of this is accounted for by savings in the form of domestic and foreign loans to the state and measures taken to battle the deficit. Moreover, since 1979, we have had a fairly high proportion of nonproductive construction (in five of the years this exceeded 40 percent and it has reached as high as 45 percent). However, in reality, nonproductive construction, and in particular investment for residential construction, is a type of subsidized, welfare-type indirect consumption brought on in the form of savings, and thus our productive savings are brought down even more. From all of this we can see that our methods of distributing income since the advent of reforms have led to enormous changes, but the consumption style of residents has remained unchanged, and this sort of consumption under a semi-supply pattern has a serious effect on the basic balance between overall societal supply and demand. This leads to a serious tear in the fabric of the relationship between consumption demand structures and production structures.

E. Resident income has increased too quickly but the consumption field has been too narrow. When enormous cash purchasing power is unleashed on a market of limited commodity supply, the inevitable result is that commodity prices will be pushed way up. When consumption demand is just beginning to grow too fast, one can still increase market supply by tapping into the existing production potential and drawing on commodity reserves. This will not have the immediate effect of raising commodity prices. But if this sort of situation continues to unfold, then the extent to which commodities can provide a guaranty for currency is greatly weakened, the gap between supply and consumption continues to grow wider, and soaring increases in market commodity prices is unavoidable. When things reach this stage, although the state is forced to adopt severe price control measures, they are only minimally effective. Since 1984, our commodities have been able to provide a much smaller guarantee to our currency, and the swell in consumption demand has actually had the effect of driving market commodity prices way up. From an analysis of statistics we can see that in 1984 at the beginning of reforms each yuan in circulation was met with about four yuan worth of retail commodities in stock. This later fell to 2.5 yuan and in 1988 further fell to 1.6 yuan. If we add to this the savings deposits of residents, we find that for every yuan of surplus purchasing power in 1984 at the beginning of reforms there were two yuan worth of retail commodities in stock. This later fell to one yuan and in 1988 further fell to 0.6 yuan. Prior to 1984, market supply and demand relationships were basically balanced but the gap between supply and demand grew steadily larger. In 1988, the gap between supply and consumption reached higher than 80 billion yuan. Hence, the rapid rise in retail commodity prices since 1984 which, in 1988 alone, rose 18.5 percent. From

this we can see that, since last year, the swell in consumption demand has become a major reason for our current state of inflation and the imbalance between supply and demand for social commodities.

## II. Primary Causes for the Swell in Consumption Demand

Nearly every socialist nation that has carried out reforms of its economic system has met with swells in consumption demand. However, our swelling demand for consumption continues to develop, at no time has a quick remedy been available to effect a basic turn-around, and the many social, political, economic, and cultural factors at the root of this are extremely complex. If we analyze the problem from an economic standpoint, we note that the fundamental reason for the swell in consumption demand is that, while we have continually endeavored to do away with the old system of income distribution, we have not been able to establish a sound, new system of income distribution in a timely fashion, and we lack a regular order in our economic life.

A. Enterprises lack a mechanism for self-restraint. Implementation of the contract responsibility system for enterprises has achieved a unity between enterprise management results and earnings distribution, and this represents a major breakthrough in our current system of enterprise reform. The enterprise contract responsibility system that hinges on linking up overall wage increases with economic efficiency has provided a basic solution to the problem of enterprises only being responsible for profits, and not losses. At the same time that we have bestowed the rights of self-initiative upon the enterprises with respect to income distribution, and mobilized the enthusiasm of the workers, we haven't given the enterprises corresponding responsibility for saving. Enterprises lack a mechanism for self-restraint and thus, it is fairly common for short-term behavior to be found in the income distribution activities of enterprises. When the contract responsibility system was initially made operative, the enterprises pinned their hopes for increased income on the state's allowing them tax reductions and profit retention, and they worked hard to get a lower profit tax base and a higher wage base and to link up the two. According to finance department statistics, because the profits tax base for local enterprises carrying out linkage of total wages with economic efficiency was fairly low, the growth ratios between total wages and profit taxes paid exceeded the 0.7:1 stipulated by the state in former years. In 1985 the ratios reached 0.73:1, and in 1987 they reached 1.12:1. Not only have total wages in efficient enterprises risen, but a considerable portion of retained profits have been used to increase bonuses and material benefits, even when they have to be squeezed out of the production fund. Not only have there not been corresponding drops in total wages paid by certain economically inefficient enterprises, but they have collaborated with enterprises where workers are paid a high income, all under the approval or acquiescence of the local authorities. With this in mind, it is not difficult to

understand why, in 1987, 19 provinces and cities had increases in total wages that exceeded increases in profit taxes paid. Some of these provinces and cities had increase ratios as high as 2:1. Another major reason why enterprises lack a mechanism for self-restraint is that we still have not implemented a coordinated system for enterprise bankruptcy. Liquidated enterprises can still legally get support from the state, and the workers and leaders of enterprises that cannot pay their debts are still not personally responsible, to say nothing of making the payments themselves.

B. As long as the new system for adjustment and control remains unperfected, the ability of the central government to perform macroregulation on income distribution is unduly weakened. Reforms giving greater powers to the lower levels, primarily financial contracting, foreign trade contracting, and linking up total wages on a regional basis, have spurred on regional enthusiasm, and at the same time have increased regional profits, strengthened the idea of collaboration, encouraged local government to adopt various remedies or directly intervene in collecting taxes that should be paid to the central government, and effectuated the so-called "keeping the wealth in the hands of the people." Perhaps one could say that it has led to the acquiescence in various kinds of short-term enterprise behavior for the purpose of heightening the standard of living in the region. At the same time, the local governments have also adopted methods of increasing subsidies to the region such as allowing prices to smoothly rise, thus safeguarding the enterprises in their quest for higher prices, and increasing the incomes of the workers in the region. These reciprocal pushes for higher regional consumption cannot be stopped from spurring on swells in consumption nationwide for the reason that they have crippled the adjustment and control measures taken by the central government.

C. Certain of our reform policies have not been thoroughly coordinated at the outset. Although the policies have been fairly comprehensive, for various reasons they have not been actually suitable for operation. Under the various contract responsibility systems, the regulations allow enterprises to pay back loans before taxes, and they can set aside award funds and material benefit funds based on the numbers compiled prior to taxes when they are getting ready to pay back loans. This sort of policy undoubtedly encourages enterprises to renovate, but it also leads to some enterprises awarding greater bonuses and material benefits through the use of taking on huge loans. Use of a dual-track pricing system could force enterprises to increase extra-budgetary fund income through reasonable means. But, effective supervision and checking is a difficult task. Some of the extra-budgetary funds could become individual consumption income in the form of bonuses; otherwise, they would invade the market in the form of group power. Because the regulations give the local governments power to reduce the taxable income of enterprises and village enterprises, in reality, part of the

tax reduction represents a deduction in the percentage paid to higher departments, and another part of it is directly retained by the enterprise. Through various channels, all of this money can eventually surface in the form of individual or group consumption. Our most effective lever for regulating distribution could be to adjust the tax base for individual income, however, because our measures are not coordinated, and we don't have concrete systems for income reporting and income supervision, this would be difficult to implement. Policy loopholes have become the main reason for swells in consumption.

D. Less than perfect market systems inevitably have a serious distorting effect on such market parameters as prices, profit rates, tax rates, and wages. Thus, it is difficult for actual changes in supply and demand to be reflected on the market. Currently, cost pressure resulting from the pull of demand and the fact that wage growth exceeds production growth, is what has brought on higher overall levels in commodity prices. Under these conditions, shortages become the main feature of the market, enterprises can easily find an outlet for their products, and regardless of whether one is seeking a way to divert the rising costs of raw materials or is seeking to pass off the cost of higher wages on society, there is always a way out. The result is that, as long as the actual amount of products actually produced does not increase, one can artificially raise one's current product value and profits. After the implementation of linkage between total wages and economic efficiency, this artificial heightening of product value and taxable profits led to increases in total wages, enabling enterprises to earn lots of "commodity price wealth." Because these enterprises are under contract with the central government, the state takes back very little of what they earn in the form of price hikes. And a related issue is that, as commodity prices rise, state subsidies also have to follow suit, and this leads to both a lowered proportion of income resting in the hands of the state, and is another reason why the state does not have enough money to carry out construction.

E. We lack a regular order in our economic life. In recent years, some fairly chaotic phenomena have emerged in our economic life showing that we have not yet established a regular economic order that suits the systematic changes we have made with our reforms. Irregular individual income has sharply increased and this has led to both the growing contradiction of inequitable income distribution and also has brought about, directly or indirectly, the overall swell in consumption demand. Currently, those chaotic factors, having a fairly great effect on the swell in demand for consumption, manifest in the form of the following: (1) Chaos in the chain of circulation, profiteering, illegal investment gone wild, and certain corrupt official companies using their administrative powers to slip through loopholes in the dual-track system and reap staggering profits. (2) Evasion of supervision is quite common, and it becomes less and less clear how income is distributed. Although most

individual entrepreneurs don't bother with setting up accounts, it is becoming quite a problem with certain collective enterprises, and even state-run enterprises setting up phony accounts. Tax evasion and reckless issuances of cash and in-kind payments are fairly common. It is becoming quite popular to create phony bills and receipts as well. (3) Income diversion and use of public office for private gain. Enterprises start up labor service companies and make use of a wealthy member of the enterprise to divert the income of the enterprise, and also take advantage of the collective form of enterprise to change the appearance of their income. An enterprise can accumulate a fund outside its books by concealing business earnings, and can distribute this fund to individuals under various disguises. (4) The means of competition is not standardized, and bribes are quite common.

F. With consumption demand growing too quickly, and the purchasing power of residents becoming enormous, if we act quickly to speed up reforms in the area of consumption, relax the consumption territory, adjust consumption structures, increase supply, and lessen the pressures on the market, then we can achieve a considerable levelling off in the growth of consumption. However, after carrying out numerous reforms in the area of income distribution, state sanctioned practices are still being practiced in the area of consumption, and very little real progress has been made toward reforming the communal rice pot-type free health services system, the low rent housing system, the old age insurance system, and the educational system. Currently, workers in the cities don't have to worry much about their housing, medical expenses, and old age needs. They can unhesitatingly spend their incomes out in the marketplace, and even squander their money if they wish. Thus, an important element in solving the consumption problem is to quicken reforms in the consumption realm.

### III. Measures We Can Take To Inhibit Excessive Growth in Consumption Demand

Basically speaking, if we hope to control the swell in consumption demand, then we must continue to intensify reforms while we administer to our economic environment and rectify our economic order. At the same time we strengthen macromanagement over consumption funds, we must gradually establish a sound mechanism for enterprise self-restraint.

#### A. Strengthen macromanagement over the consumption fund.

(1) We must do a better job of overall balancing in the national economy, and continue to persist in raising the people's standard of living. (a) Do a good job at ordering the relationship between savings and consumption, and ensure that the growth of the consumption fund does not exceed the growth of the distributable national income. (b) Growth in total wages should be somewhat lower than growth in national income. (c) Growth in the

average wage of workers (including bonuses and subsidies) should be lower than growth in the rate of labor productivity. (d) Under normal conditions, growth in farmers' wages should not exceed the growth in the economic level of the agricultural village. (e) Growth in the purchasing power of residents and social groups should fit the potential supply of social consumer goods.

(2) We must resolve the problem of too many governmental bodies taking action, each in its own way. Anything that deals with expanding the major consumption policy measures, the wage bonus system, individual income tax rates, adjustments in the selling price for agricultural by-products, price subsidies, etc., should be administered by dual level government (central-province, central-regional, central-city) under policies promulgated by the central government. We cannot have jurisdiction over these matters sprinkled all the way down the chain.

(3) We must make use of various economic measures to control the growth in consumption demand. Particularly, we must employ financial measures, monetary measures, and necessary administrative measures. For example, we can tighten up on administrative operational expenditures, control bank loans and the issuance of currency, strengthen the supervision and management of banks over wage funds and extra-budgetary funds, and tighten up our control over the permissible scope of costs.

(4) Further restrict the scope of fixed asset investment. This is because increases in consumption and increases in investment are inherently related.

#### B. Establish a sound mechanism for enterprise self-restraint.

(1) Come up with a rigorous wage base and profit tax base, and strictly carry out the linkage ratios stipulated by the state.

(2) Strengthen management over enterprise funds. Retained enterprise profits must be employed in strict accordance with the permissible ratios. Unauthorized advantage taking of using production fund should be investigated and punished. Enterprises should gradually come to establish a system for setting aside wages in a savings fund, so money will be available when it is needed. Enterprises should start to make up deficiencies in their own circulating capital.

(3) Earnestly implement enterprise bankruptcy laws.

C. Vigorously control the purchasing power of social groups, and tighten the spending of social groups

D. Rectify the economic order, and strengthen management over the other forms of resident income. We must earnestly implement provisional regulations for an adjusted individual income tax, strengthen the tax collection from individual income, gradually set up a sound reporting system for individual income tax, do a better job of impressing the importance of paying the proper

taxes in the minds of the citizenry, and we must strengthen the supervision over and investigations into the financial affairs of individual companies, businesses, and households. Departments concerned must formulate specific ways of managing workers who engage in second jobs, and the re-employment of separated and retired workers. Stamp out the various forms of illegal income by persistently applying the laws.

E. Relax the consumption environment, and disperse the flow of purchasing power.

### Enterprise Vitality, Responsibility

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[Article by Qi Wen 7871 2429, staff reporter]

[Text] How much financial resources must China's nationalized industrial enterprises have to be self-sufficient? According to recent information from authoritative sources, last year it was over 100 billion yuan. This fact alone shows that the vitality of China's industrial enterprises undergoing reform has increased greatly. At present, financial resources that are independently controlled by the enterprises cover the following aspects: first is retention of profits, second is use of pretax profits to pay off loans, and third is collection of various types of specific funds by enterprises. According to statistics, profits retained by enterprises and loans paid back before taxes last year totalled 52.4 billion yuan. The fact that nationalized industrial enterprises have such large financial resources which they can control themselves is a gratifying result of healthy developments in the people's economy. This sum is almost as much as the original value of fixed capital assets for all nationalized industrial enterprises combined, and practically equal to the total revenue received by the state in 1980. If these funds were used to build great water improvement projects such as the Gozhou Dam, 25 dams could be built. Analyses by economists recognize that for such great financial resources to be in the hands of nationalized industrial enterprises is due largely to rapid developments in industrial production, creating large-scale growth of the profit tax. During the ten years of reform, China's industrial development reaped accomplishments that attracted worldwide attention. Even without mentioning the multiple turnovers in output value, just looking at the profit tax generated showed that its increase in 1988 not only exceeded the previous year's figure by 20.8 percent, it also showed a more than onefold increase over the 1978 figure before reform was instigated. In the last ten years, 70 percent of the state's revenue was derived from industrial enterprises. This explains that the growth of independent financial power among industrial enterprises is based firmly on great developments in production. Before reform, flexible financial resources among nationalized industrial enterprises were practically nil, and each move these enterprises made was determined by the managing agency, and there was hardly any vitality. However, as reform

progressed, the flexible financial resources of enterprises continued to grow. Just take the item of profit retention. The estimated accumulated total for all nationalized industrial enterprises is now almost 200 billion yuan. With the right to manage themselves and the ability to depend on themselves for basic construction and technological improvements, these enterprises have changed immensely. Many are now independent economic entities, no longer adjusting their finances to every move made by their overseer managers. They are no longer appendages of some government agency, but are independent legal entities capable of self-determination. A good many enterprises have abandoned the "insured rice bowl" provided by direct command planning, and are holding up the "risky rice bowl" of market competition instead, to begin great strides forward on the economics stage. Comrades at fiscal agencies have reminded responsible enterprise managers that with such large independent financial resources, many enterprises have benefited, and the time has arrived for them to contribute more to the state. These enterprises are faced with two problems: The first problem is how to make contracts cover gains as well as losses. Under present conditions, for enterprises that complete the contract target with surplus income, fiscal agencies make good on the surplus that exceeded target. But most enterprises that have yet to complete their contract targets do not have their own funds to supplement income to be turned over to the state. The second is how to properly deal with the relationship between interests assigned to the state, the enterprise and the individual, to assure the reasonable growth of the state's revenue. In the present situation, enterprise profit shows large scale growth; On the other hand, the share of profit turned in to the state shows a drop. Take the first four months of this year as an example. The profits retained by enterprises rose 16 percent, but profits turned in to the state dropped 20 percent. For some enterprises, the realized profits amounted to a million yuan, while the profits turned over as revenue to the state only averaged around the hundred thousand mark—a tenfold difference multiplied several times.

While the possible causes for such a situation are many, proper treatment of the relationship between interests assigned to the state, the enterprise, and the individual, to assure a reasonable growth in the state's revenue should be the unshirkable responsibility of all industrial enterprises.

### FINANCE, BANKING

Report on Financial Situation, Monetary Policy for Remainder of Year

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11 Jul 89 p 3

[Article in "The Present Economic Situation: Analysis and Countermeasures" column by Dai Genyou 2071 2704 2569: "Report on the Financial Situation in the First 5 Months and the Monetary Policy and Measures for the Remainder of the Year"]

[Text] The Financial Situation and Basic Experience in the First 5 Months

Assessment of the financial situation, basically, should be based on how well the ultimate objectives of a monetary policy are fulfilled. But because in reality there is a time lag in the implementation of a monetary policy, the assessment is more often based on how well the midterm objectives are fulfilled. In the West, the midterm objectives often consist of the money supply, the market interest rates, the surplus reserve, and basic money. In China, however, because our financial market is not as well-developed and we have a different set of microeconomic mechanisms in the financial market, in practice, the midterm objectives of our monetary policy often consist of the amount of currency issued, the overall loan volume, the specialized banks' surplus reserve, and the level of enterprise savings and so on. Replacing the money supply with enterprise savings and cash in circulation as the midterm monitoring targets is to give recognition to the difference in purchasing power between enterprise savings and cash in China and to their unique characteristics which differ from the interchangeable relationship that exists between their counterparts in the West.

Judging by how well the major midterm objectives of the country's monetary policy have been met in the first 5 months of this year, we can say that the financial situation has clearly improved. Specifically: 1) We have withdrawn more cash from circulation this year than last year; from January to May, nationwide, a net of 9.7 billion yuan in cash was withdrawn from circulation. 10.9 billion [as published] yuan more than last year for the same period. In May alone, a net of more than 3 billion yuan was withdrawn while in May of last year, more than 1 billion yuan was put into the circulation. If we add the sum of money put into circulation and the sum of money withdrawn from circulation, 4.5 billion yuan more were withdrawn from circulation this year than last. 2) The state banks managed to keep their various loan funds under control. From January to May, loan funds increased by more than 20 billion yuan, nearly 30 billion yuan less than last year's increase. 3) Enterprise savings resumed their upward trend. After credit loans were tightened last September, enterprise savings dropped for 3 months in a row and picked up only slightly in December. The downward trend continued in January and February and picked up again in March. By the end of May, the upward trend has continued for 3 months. Since the credit tightening in September of last year, enterprises have been on the verge of insolvency on several occasions, and some of them have had serious production cash-flow problems. The 3-month rise in the savings level since March of this year clearly demonstrates that enterprises' ability to pay has been greatly enhanced. Based on our monitoring of 425 state-run industrial enterprises in 22 large and midsized cities around the country, and if cash fund as a percentage of monthly income generated by product sales drops below 16.8 percent it is considered a warning of fund problems, by the end of May, the actual rate was 21.6 percent—well within the normal range. This indicates that the enterprise insolvency crisis is over. 4) The

specialized banks' surplus reserve has returned to normal. At the end of May, the specialized banks have a total of 41.8 billion yuan in account in the central bank. The reserve-to-deposit ratio is at the normal rate of 5.31 percent. On several occasions after the central bank tightened the money supply last September, the reserve-to-deposit ratio dropped to below 2 percent, and also some specialized banks were on the verge of insolvency on several occasions. Those incidents diminished the banks' credibility. Since March, however, as the reserve-to-deposit rate continues to rise month after month, the specialized banks have put their money crises behind them.

In the first 5 months of this year, the financial situation has clearly improved. It is most encouraging. Analyzing the situation from the point of economic operation and monetary policy and measures, the following factors seemed to have played an important role: 1) Market prices were basically stabilized and this guaranteed the steady increase in savings—this is the basic reason for the steady increase in the amount of cash retrieved in the first 5 months of this year. If we analyze the composition of the banks' cash payments and receipts, prior to 1977, cash receipt in the form of savings accounted for around 9-10 percent of the banks' gross cash income. This rate has continued to rise steadily since 1978, and by 1988, it had reached 33.8 percent, a 25-percent increase. This demonstrates that the withdrawal of money from circulation via bank savings is playing an increasingly bigger role in the process of the banks' withdrawal of currency from circulation. This year, after a time lag, last year's tight policy is now taking effect, and because of improved price management, market prices have stabilized. Calculated on a moving basis, the price indices of the sale of social goods were 5.3 percent in January, 1.4 percent in February, and 1 percent in March; prices were more or less unchanged in April compared with March. Furthermore, because the government has repeatedly indicated that it is determined to make this year's price increase significantly less than last year's, the people are less worried, and they are beginning to understand how indexed savings accounts work; therefore, savings have increased steadily. 2) Guided by the party Central Committee's and the State Council's general policy of improvement and rectification, the overheated economy is slowly cooling off. The inflationary pressure of excess demand has weakened, and this makes the implementation of the tight monetary policy much easier. In the first 5 months of this year, the nation's cumulative Gross Value of Industrial Output [GVIO] increased 17.1 percent, but the rate of increase fell by 5.9 percent, compared to the same period last year. Investment in fixed assets by units in the ownership by the whole people system dropped 7.1 percent; retail sale of goods in society increased 20.2 percent, but the rate of increase fell by 3.6 percentage points, compared to the same period last year. Import-export trade deficits came to \$4.64 billion, \$3.84 billion more than a year before in the same period. It is because of this slowing demand that the increase in the bank's credit volume can be kept

under control this year. 3) The central bank has improved its macroeconomic financial control measures and this in turn has made the macroeconomic variables more controllable. Controlled by the quarterly loan recovery plan and the overall credit quota plan handed down by headquarters, the central bank met its loan recovery plan and credit quota plan in the first 6 months. This guaranteed the effectiveness of the tight policy.

The improvement in the financial situation in the first 5 months clearly demonstrates that the party Central Committee's and the State Council's general policy of improvement and rectification since last September is correct. The tight policy is gradually getting results. If we continue to maintain and implement that policy, the financial situation will continue to improve.

#### **Prospects for the Rest of the Year and the Monetary Policy and Measures**

The financial situation in the first 5 months has improved, but for the rest of the year, there is no room for optimism. Factors adverse to the macroeconomic financial controls are fomenting. Primarily: 1) Market prices of grains have been rising, which make state grain procurement more difficult. In order to meet the grain procurement quota, the state must narrow the gap between procurement and market prices, and that means raising procurement prices; however, this in turn means that the banks must increase their cash outlay for procurement of agricultural and sideline products. 2) In the aftermath of the recent turmoil, it is impossible to ease the swollen consumption funds quickly. It is more likely that spending will increase on top of the huge expenditure of consumption funds in recent months. This will greatly affect the cash input for the remainder of the year. 3) In order to restore stability in life after the turmoil, finance departments at all levels are prepared to raise market price subsidies. Meanwhile, because enterprise profits on the whole have declined this year, the government's tax revenues have also decreased, and so we can expect a financial deficit this year. The state has decided to issue index bonds worth 12 billion yuan. In view of the tight money situation in China today, and because there is little flexibility in the banks' fund supply obligations, no matter how we intend to remedy the deficit this year, it will directly or indirectly put pressure on the credit balance. 4) The turmoil has led to a change in our foreign economic relations. Our balance of payments will suffer a setback this year. The effect of the turmoil on our balance of payments can be felt in at least two areas: one, hard-currency income from tourism will decrease; two, foreign loans and foreign investments will decrease. In addition, our export trade will also be affected. Reduction in foreign exchange income will force us to reduce imports, and the result will be a net decrease in the import of foreign goods and materials. This to some extent will adversely affect the effective supply in the domestic market and will upset the market equilibrium. 5) It will become increasingly difficult to stabilize prices. This year, retail market prices have been relatively stable primarily because of administrative

management and control. From the economic point of view, the prices of producer goods have been rising steadily in the first 5 months of this year, and therefore production cost for the manufacturers of retail commodities has also been increasing steadily. If this situation prevails, it inevitably will bring pressure on retail market prices which are under administrative management and control. If there is any kind of clear price disturbance, it will disrupt the increase in the people's savings. As we all know, the improvement in the financial situation this year is due largely to the increase in savings, and if the foundation of savings is shaken, we will not be able to prevent the financial situation from taking a downturn.

As we consider the basic experience of the improvement in the financial situation in the first 5 months and explore the problems we might face as we try to stabilize the financial situation in the remainder of the year, if we want to see a radical improvement in the financial situation, the state must first continue to implement macroeconomic policies that comply with the general policy of improvement and rectification. It must continue to adopt measures to stabilize the rate of production, public finance, investments, consumption, prices and so on. It must maintain the rate of production at the present level and prevent the resumption of a super-high rate of growth. It must minimize the financial deficit and prevent the uncontrolled increase in financial credit. While controlling the scope of investments, the consumption funds, and the price level, the state must adopt even more stringent management and control measures and prevent investment, consumption, and prices from going out of control again. Before a radical solution to the present swollen social demands can be found, and before a mechanism is built into the socioeconomic structure to limit its swollen demands, to break the demand-price increase spiral, we must to a very large extent rely on administrative measures to control both demand and prices.

With respect to the monetary policy, we must continue to tighten the economy. In managing the central bank's loan policy, not only is there a need to study the seasonal pattern nationwide, but also the seasonal pattern in each province and city. We also need to study how the central bank makes its loan decisions. In adjusting the loan composition, we need to review our experience in the first 6 months of this year, as well as our experience in supporting the large and medium-sized enterprises, and the purchase of agricultural and sideline products over the years. Thus, we can find a way in which to give the central bank's local branches at all levels a more positive role. We must avoid letting the headquarters set and hand down loan quotas to local branches. We must monitor closely any change in the specialized banks' surplus reserve and prevent a repeat of the situation during June and July of this year when the specialized banks used their surplus reserve to extend extra loans, causing the credit volume to expand.

## FOREIGN TRADE, INVESTMENT

### Management Problems in Foreign-Invested Enterprises

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[Article by Pi Qiansheng 4122 7816 3932, Zhang Jun 1728 6511, Ai Yamin 5337 0068, and Yang Fan 2799 1581, members of the Administrative Commission of the Tianjin Development Zone; Liu Xiaoyan 0491 2556 1750, responsible editor: "Problems and Ideas Concerning the Management of Foreign-Invested Enterprises [FIE's]—An Investigation of FIE's in the Tianjin Development Zone"]

[Text] The present article is based on conditions in the Tianjin Development Zone. It analyzes several problems of general significance in connection with Foreign Invested Enterprises [FIE's], such as the low rate of achieving production targets, the diminished efficacy of boards of directors, and difficulties in overseas sales, also in the management of production and technologies, in labor management, and puts forward certain practical ideas as to possible solutions to the said problems.

#### I. Conditions of FIE's in the Tianjin Development Zone

Until the end of September 1988, 110 FIE's have been officially approved in the Tianjin development zone. The total amount of these investments was \$134,000, their registered capital was \$104,200, in which foreign parties had invested \$46,500, i.e., a share of 45 percent. Fifty-eight FIE's have already started regular operations.

A. The following are the more conspicuous problems encountered in carrying out the initial projects in the development zone, which had been established for the purpose of attracting foreign investments and as a concentrated effort to operate FIE's: (1) An unrealistic policy, too limited a range for investments. (2) In its development up to this date, the development zone, still being in its infancy, has not yet created a name for its products or a proper investment climate, and has made little impact internationally. (3) A poor infrastructure, with even worse conditions with regard to business environment, especially the labor market and capital fund market. Additional problems exist with regard to the supply of raw and semifinished materials, also as to the capability of the Chinese side to cooperate, facts which have foreign firms shying away from any involvement. (4) Many problems in the very operation of the projects themselves. Development work of some projects was not done in sufficient detail and with sufficient care, feasibility studies were unreliable as to actual requirements in time, expenditure, and qualified personnel. Development and quality of projects were also, to differing degrees, affected by the quality, professional capability, and experiences of cadres involved, and in addition were affected by the granting of personal favors, considerations of personal prestige and the quest for personal profits.

All the causes mentioned have led to certain obvious peculiarities in the FIE's of the development zone, which may be summarized as follows:

B. The investing foreign parties are of a low level, as evidenced by the following facts: (1) Sixty percent of foreign investors are from Hong Kong, Macao, and Southeast Asian countries, and few from the developed countries of Europe and America. (2) Investors are mostly medium and small enterprises, or some small-scale trading companies. Their investments are small, and there is an absence of powerful large corporations. (3) Foreign investors are evidently not in possession of sufficiently advanced technologies; their equipment is of low quality, and this makes for low-grade products. (4) Sales networks and marketing channels are limited, and marketing capabilities are poor.

C. Enterprises tend to be small. The FIE's in the Tianjin development zone are generally small-scale. Only 2.8 percent are projects of \$5 million or more, and 20 percent are projects of only \$200,000 or less.

D. Technologies are practical, but technically simple, equipment is low-grade, and enterprise technology is of low quality. Only about 7 percent of technologies imported by the FIE's of the Tianjin development zone are truly the world's recent and advanced technologies. Most of them are comparatively advanced and comparatively mature, practical technologies if compared with some now being used in domestic enterprises. These technologies are, furthermore, characterized by having generally few links in their production chains, few working procedures, and simple techniques. Somewhat less than 50 percent of their equipment is up to the level of the 1980's. Not only are they not sufficiently advanced technically, but they are also seriously inferior in their quality. These enterprises are hard pressed to cope with problems in the operation of their machinery, quality problems, and various technical problems, and any assimilation and absorption of technologies and development of new products is, therefore, quite out of the question.

E. Tendency toward production of low-grade goods. The FIE's in the development zone are primarily manufacturing products of the light and textile industries, and only a few are enterprises of the high-tech industry. Furthermore, the general tendency in the light and textile industries is to produce lower grade goods.

F. Marketing through a single outlet and lacking qualified personnel. In most FIE's in the Tianjin development zone, the foreign party has contractually exclusive selling rights for the products, and it is only in very few cases that the Chinese party participates in overseas sales. While procuring raw and semifinished materials and selling the finished products, it is a rather serious phenomenon that the foreign party garners much of the profits of the commerce. Because of lack of experiences

in the past and various restrictions of the system, the Chinese party finds it impossible to develop its own channels for overseas sales.

G. Use of fixed numbers of workers per shift comes close to international standards. In many projects, the feasibility study adopted the data on fixed numbers of workers per shift that were brought along by the foreign party, so that in enterprises with fairly normal production management the ratio of first-line workers is evidently higher than in domestic enterprises.

H. Management may be composed of a small number of capable men, but is not normalized. The organizational setup of the FIE's in the Tianjin developmental zone starts out from the absolute realistic needs of production and business operations; where there is functional concurrence or overlapping, components will all be combined in one department. However, there is comparatively large latitude left to the managers in their work, and there is much "rule by man" [as opposed to rule by laws and regulations]. The entire basic managerial work is weak, lacking comprehensive and systematic rules and regulations and the implementation of any strict supervision.

## II. The Problem of Having Joint Ventures Achieve Plan Targets

A. In their initial period of production, industrial enterprises will for a time operate at a loss. In their initial period of operations, enterprises will mainly have to solve problems in connection with the proper operation of their equipment, their technologies and techniques, regulation and control of quality, etc., so that they will for a time be unable to achieve the planned output targets. Losses will result from high per unit costs and an uneconomical scale of operations. Among the FIE's in the Tianjin development zone, productive industrial enterprises (projects) account for about 83 percent. FIE's that have started up operations since 1987 account for 60 percent of all FIE's. Until August 1988, FIE's that have actually gone into operation in the development zone and have on average achieved planned rates of production account for 15 percent, and FIE's that have achieved planned rates of production to 60 percent or more account for only 30 percent of all FIE's.

Judging by the present conditions of the joint ventures in the development zone, achievement of planned production rates is mainly obstructed by the following two factors: (1) The existence of a "choking" link somewhere in the technologies, equipment, techniques, or in management. Because imported equipment may not be up to standard, or due to deficiencies in the operation or maintenance of equipment, or due to accidents with the equipment that may have stopped operations or seriously affected product quality, some enterprises may have found it impossible to increase their output. In other enterprises, irrational production arrangements or problems in labor management may also adversely affect their ability to raise the rate at which planned production

targets are achieved. (2) Various difficulties in the supply of raw and semifinished materials or in the marketing of the products may be the cause of failure to achieve planned output volume.

The problem of achieving planned output targets is a most conspicuous problem at the initial stage of going into production. A considerable proportion of enterprises in the development zone get entangled in various difficulties and problems because of low levels of technology, management becoming one based on experiences alone, lacking strict, scientific controls, and having only a single sales outlet for its goods. In our opinion, the most radical solution for this problem of failure to achieve planned output is to concentrate strength for a well-aimed effort to bring about a solution in the key links which restrict output.

## III. Problems in the Board of Directors Institution in Joint Ventures

According to the provisions of the "Law Governing Joint Ventures Using Foreign and Chinese Capital," all joint ventures shall institute a system of chief manager responsibility under the leadership of a board of directors. The board of directors is the highest power organ of a joint venture enterprise, but presently the system of having boards of directors is not functioning well in joint venture enterprises, as evidenced particularly by the following phenomena:

A. The declining efficacy of directors. There are directors who do not understand production and business management conditions of the joint ventures, are quite ignorant of trading conditions in the market, and do not do their duty, or do so only perfunctorily, of familiarizing themselves with the workings of their joint ventures, of formulating policy decisions, and of supervising and controlling the joint ventures. The following are three reasons for this state of affairs:

(1) In respect of managerial organization, quality of available personnel, and intellectual concepts, the Chinese side of the investment is not yet suited to instituting this system of management by boards of directors. Management by board of directors to some extent is a management by policy decisions, but in some ways also a command-type management. The board of directors exercise indirect control over production and business activities of the enterprise by formulating policy on business operations, by daily and regularly familiarizing themselves with conditions, and practicing supervision and control. In their actual work, many directors often do not understand the importance of these controls and do not practice the habit of carrying out management by policy decisions and command-type management, being only accustomed to the "order-compliance" style of management, and always hoping to conduct executive management and the management of work processes. The aspiration for power is strongly entrenched, and leaves no place for functional division of labor, or for the idea that each must properly attend to his particular

sphere of duties. This has some directors unwilling to carry out the duties of directors, so that objectively managerial staff of many enterprises are generally of low quality, and incompetent to exercise indirect management of enterprises.

(2) Confusion as to the functions of directors and those of managers; insignificance of board of director positions. The directors (including the chairman of the board) are drawn from two sources: One source is the contingent of leading cadres of the Chinese investing party or the department in charge of that party (most chairmen were chosen in this way), and the other source is the contingent of common cadres in the Chinese investing party (so, e.g., the cadres of the Directorial Bureau of the Tianjin Development Zone). The Chinese managers were generally cadres of the Chinese investing party who have shown capability and have had actual work experience. This has created two kinds of conditions: one was that the managers one-sidedly followed the leadership of the chairman of the board; and second was that the managers felt responsible directly to the Chinese investing party over the heads of the directors. The result of these two conditions was that it weakened the authority and position of the directors and downgraded the functions of the directors, and that it created or aggravated contradictions within the board of directors, the Chinese, and the foreign managerial staff. It has also had an adverse effect on the board of directors' decisionmaking function and disrupted the unity in the executive system of the enterprises. As the functions of the Chinese directors were thus undermined, the directors came to play an unimportant role, and their positions became insignificant. Since the positions of the directors had become insignificant and held no stimulating elements, it made it generally difficult for directors to fulfill their duties. For reasons of self-protection, some directors would turn a blind eye to certain things, and would not risk putting forward sensible and beneficial demands. As a result of all this, there are on the one hand, directors who "do not understand" [a play on homophonous words "dong" 5516 and "dong" 2016]; and on the other hand directors who scramble for power and start a trend of directors trying to become managers.

(3) Without any stimulating elements, creating a contingent of directors is an unsound undertaking. Managerial positions in joint ventures are something that people envy: their greater freedom, the high pay, powers of office, cars at their disposal, entertaining guests, many invitations, participating in banquets and being courteously received (relatively speaking), being sent abroad on occasion, and if the enterprise is successful, there will also be promotions. The treatment of directors is quite different. In addition, appointment of a chief manager is not subject to a strict procedure and requires no qualifications, so that many directors are averse to administrative planning in their positions. Through all kinds of relationships and channels they rather try to become managers. On the other hand, it has also happened at times that some directors (chairmen of the board), as

they covet the treatment enjoyed by managers, will use their authority to also demand certain unreasonable material benefits from the joint venture, such as the use of a car, or being issued certain materials, etc.

B. Various directors have no common interest, and due to this, board meetings often become entangled in squabbles over personnel matters or fractional interests, thereby preventing them from formulating effective policy decisions in important matters concerning production and business operations of the enterprise, which in turn weakens the efficacy of the board of directors. Some of the Chinese directors (chairmen of the board) do not contemplate long-range cooperation or start out from the realities of the joint venture, but one-sidedly stress their own individual interests and put forward unrealistic demands for benefits. There are two reasons for this: One is the myopic action of some joint ventures. For instance, one Chinese investing party of a joint venture in the development zone demanded to purchase at cheap prices products of the joint venture in order to be able to reduce its own production costs. The other reason is the personal ambition of some particular leading cadres of the Chinese investing parties. For instance, their demand for material benefits, placing their own people into managerial positions, or scheming to get a better job for themselves, etc. In view of the great diversity of interests among the various investors, the board of directors lacks a common interest base, which makes it difficult for them to arrive at a common stand in policy decisions on important questions of business operations; this again, to an extremely significant extent, reduced the efficacy of the board of directors to function through management by policy decisions.

When discussing the system of management by boards of directors, many comrades one-sidedly emphasize the responsibilities and benefits of the directors, but in our opinion the basic cause for the decline in efficacy of directors and boards of directors is that our current management system and our institutions are not yet suited to meet the demands posed by a management by boards of directors. We are, therefore, suggesting the following measures for a solution of the problem:

(1) Perfecting the board of director system, strengthening controls over directors. In specific terms, this comprises: (a) A clear definition of qualifications of directors, their conditions of service and of the procedure for their appointment. (b) A clear definition of the responsibilities of directors. As to their positions and their administrative planning, these must not merely be nominal affairs of an honorary nature. In our opinion, activities that are reasonably expected of directors must comprise the following three elements: First, they must periodically familiarize themselves with the production and business operations of the enterprise, so as to have a clear understanding of production, technology, labor-capital relations, marketing, and other such important questions. Second, they must try to gain an understanding of the trading conditions, domestically and abroad, for raw and semifinished materials and for the

products of the enterprise, as well as regarding related technologies and equipment. Without prompt information of market conditions it is impossible to make proper policy decisions on business operations of the enterprise or to express opinions on them. Third, another important function of the directors is presently coordinating the interests and demands of the investing enterprises toward the joint venture. By reporting the situation at the lower level to higher level, a unison will be established between the interests of the joint venture and the interests of the investing Chinese party, thus coordinating the interests and demands of the Chinese investing party with the interests of the joint venture for greater realistic and rational effect. The image of the relation between the Chinese investing party and the joint venture that will thereby be gradually created will be similar to raising a chicken that will lay eggs, and not one of killing the chicken to get the egg. (c) Institutionalizing periodical reports by the board of directors (the chairmen of the boards), and gradually setting up a system of responsibility of directors for presenting verifications. If the joint venture incurs losses in its business operations, the directors must give full evidence that they have done all that duty demanded of them, as otherwise they should be held personally responsible. (d) Establishing a system of checking the performance of directors, and of granting rewards or of imposing penalties in a graded way and depending on the actual performance (also considering the profits made by the enterprise).

C. Instituting strictly for all cases a system of issuing invitations to the general public to apply for management positions, and formulating a set of realistic scientific methods for this procedure, according to the true conditions of the cases. The boards of directors should be in charge of this procedure of filling posts by public invitations to apply. There must be no sudden rush of appointments and filling vacancies with incompetent people, and the relations between managerial personnel and directors must be smoothly regulated. Managerial personnel must sever all their relations with the Chinese investing unit; in their personal relations, they must shift to relations with the enterprise, and their personal interests must be linked to those of the joint venture. They must represent nothing but the interests of the enterprise, and be responsible to the board of directors.

D. In the long-range perspective, full efficacy of boards of directors still depends on a reform of the ownership system of state-run enterprises and on a reform of the cadre system. (1) Only when the state-run enterprises will have become truly independent operating entities, responsible for their own profits and losses, will they attach due importance to the need to achieve economic returns. Only then will they be able to realistically consider the benefits and their interests in the joint venture. This will be beneficial to radically eliminate the myopic actions of the enterprises and enterprise initiatives motivated by selfish individual interests. (2) Separating government administration from enterprise management, abolishing lifetime appointments for enterprise

cadres, and a strict system of examinations to qualify for appointments. All these measures will be beneficial for strengthening the responsibilities of the directors and raising the quality of those appointed as directors.

#### **IV. Problems in the Management of Production, Technologies, and Techniques in Joint Ventures**

Investigations have shown that most joint ventures in the development zone have instituted such special systems as personal responsibility at one's post, management by norm, quality controls, safety in production, and equipment controls. In other words, there is a certain management base in respect of production, technologies, and techniques. Some of the problems that still exist in the actual execution are: Methods are simple, and not standardized, as long as they are convenient in use and effective, but such methods easily lead to confusion and laxity which will adversely affect enterprise production. Conditions of this nature are mainly due to one of the following causes:

A. The industries we are concerned with here are mostly the light and textile industries, where technology is at a mature stage and techniques are simple.

B. European and American management differs from Soviet Russian management in that written material on techniques is abundantly available and overelaborate. In the countries of Europe and America, industrial socialization has reached a high degree, division of labor is very detailed, and every plant, especially medium and small plants, are almost all highly specialized. Their internal techniques are rather simple, and there is a strong social comprehensiveness and interdependence. But again then, this well-developed division of labor and cooperation has led to many tacit agreements, where there is very little relevant documentation. Particularly in the territory of Hong Kong, there are many medium and small enterprises, and this is where these conditions exist to a large extent.

C. Many of the investors in the development zone are trading firms that have never before engaged in industrial activities and lack capability to manage production and technologies. They want to sell immediately what has been produced, and for each of such establishments one could name there are thousand others.

D. Joint ventures demand concise and efficient technologies and managerial staff, few administrative levels, and few personnel, which in turn requires that management of all production, technologies, and techniques be not too elaborate.

Although all these problems are not at all so serious in nature that they make it impossible for enterprises in the development zone to operate, they are, after all, a factor that, to a certain extent, restricts output volume and adversely affects product quality. Improvements in this respect are therefore mandatory and may be carried out in the following specific ways:

(1) As with the whole development zone, the direction must be toward greater maturity. Selection of projects and production policy must encourage projects of a high technological level, projects with mature techniques, and those with sound technological management. The emphasis should be on having high-tech and advanced technological projects play an exemplary role. To go in for the production of goods that are "small, foreign, and low grade," will be a hopeless effort in view of the competition in these lines from town and township enterprises of the Zhujiang Delta.

(2) In coordination with the enforcement of China's production permit and quality assessment activities, the control functions of the economic and trade departments of the government should be strengthened. Under government guidance, a productive forces promotion bureau, an industrial association, and other such organizations should be established, to encourage, supervise, and assist enterprises in the enhancement and perfection of production technologies, technical management, and raising of standards. The government must not directly give orders to enterprises, but can enhance macroeconomic quality supervision and control, as well as technological supervision and control. Industrial success is, after all, often success in technical management.

(3) In case enterprises produce inferior products or show low profitability because of serious problems with their technological and technical management, controls should be applied as to their land use, electric power supply, loans, imports and exports, and in other respects, to impose restrictions or afford guidance, and to urge them to make a change for the better.

#### V. The Problem of Labor Management in Joint Ventures

A. One of the purposes of starting a joint venture is to introduce from abroad an advanced labor management system, to get rid of the old system of "eating from the big pot," and to raise productivity.

Average productivity in the 20 enterprises of the development zone in 1987 was around 60,000 yuan, which was more than double the average for the entire municipality, and if computed at the planned capability of the projects, it would be even far above this figure. The manpower deployment in the enterprises of the development zone is about one-sixth of that in similar enterprises in other parts of the country. The comparatively low figures for manpower deployment may be said to be one of the reasons for the high productivity in joint ventures.

The ability of enterprises in the development zone to do with fewer fixed numbers of personnel per shift is due to: First, a high degree of mechanization and automation of equipment, mostly imported from abroad and one step in advance of equipment used in similar domestic enterprises. Second, newly instituted branches of industry which also employ a new system of manpower deployment and a new system of remuneration, getting rid of

the burden of redundant personnel. It may be said that in respect of labor management, enterprises in the development zone hold up a mirror to the enterprises in other parts of the municipality and serve them as models, which is essentially the initial purpose of operating joint ventures.

Even though this may be the case, if we compare labor management in the enterprises of the development zone with that of similar enterprises abroad, there is still a great discrepancy, and there are still many problems, of which the major ones are:

(1) The fixed number of workers per shift is still unacceptably high. The reasons for this phenomenon are: First, the low level of domestic wages and technical conditions, being not altogether the same as in similar enterprises abroad, requires an adjustment in planned fixed manpower deployment figures. Second, domestic services to industry are inadequate, so that enterprises frequently have to have more personnel to provide the needed services themselves. Third, there is still an inordinately large number of administrative personnel, a factor which is frequently brought about by the Chinese units involved, or even by individual leaders placing cadres into administrative positions.

(2) The lack of an enthusiastic and diligent work attitude, and work discipline still being unacceptably lax. Much criticism has been heard in this respect from foreign businessmen. If foreign businessmen are introduced to conditions, if policies are explained to them, if the development zone is propagandized, and when projects are discussed, the foreign businessmen would always repeatedly nod their heads, but once they inspect the enterprises, they would rather shake their heads, and all their investment confidence will be shattered. (3) There is an insufficiency in the intensity of labor. In actual operations, conformity to standards cannot be guaranteed, which has an adverse effect on product output and quality.

In our opinion, the last two mentioned factors are the most outstanding problems in present labor management. At the present low level of wages in China, it matters little to employ a few more men, while if the work attitude of the workers is bad and if the quality of work performance is inadequate, that is a major cause for the inability of many enterprises to achieve any progress in their production.

B. Many comrades have placed high hopes on the labor management of joint ventures, hoping that it will show us a solution to the problem of low productivity in domestic enterprises and enable China to truly bring the advantages of its manpower fully into play. However, the present reality is quite different, and to a certain degree this is one factor that prevents foreign capital from flowing into China. The main causes for this situation are:

(1) The conceptual problem. Even though this is an economic and technological development zone, there is

still here a deep-rooted old and decadent idea that foolishly assumes respect for the workers to be identical with indifference to enforce strict labor management. There are too many instances where existing rules and regulations are not strictly enforced, where orders are not carried out, and prohibitions not observed. China's cadres are seldom capable of enforcing strict control over workers, they are all cadres of the communist party, and who would want to be called "accomplice of the foreigners" or "opponent of the workers"? Who wants to be "enemy" of the workers?

(2) The environmental problem. If there is no managerial group within the enterprise that exercises strict management as of one mind and in a concerted effort, it will be impossible to create the right atmosphere, and the general situation, externally to the enterprise, will also not be one of favorable public opinion, of law, and of public order, i.e. of a multiplicity of administrative forces functioning in unity. Besides, there are still at all times influences of the old system to be found in the way of life of the workers within the larger environment of society. All these factors make it impossible to compare the present employment environment of workers in the development zone with that of Japan, Hong Kong, and Taiwan, as it differs widely with even that of Thailand.

Of course, there are here many theoretical questions that it would be worthwhile to discuss, for instance, the position of the workers as masters of society, the Chinese pattern of employment environment, the way of dealing with the workers, etc. In other words, the question whether emulating the international investment climate requires also emulating the workers' employment environment.

(3) Enterprises operating below capacity and badly organized production are also important causes for low labor productivity.

The comprehensive improvement of labor management is a large topic. We merely hope that everybody will pay attention to the following points:

a) Eradicate the old and decadent concept that strict labor management stands in hostile confrontation to respect for the workers, let us not spare someone's sensibilities, let us courageously institute controls. If workers violate set regulations, let us venture criticism, imposition of fines, and even dismissals.

b) Eradicate the concept that believes that in times of social stability there are no labor-capital disputes. We must maintain that the enterprises can dismiss staff and workers, if conditions require doing so. The major protection of the labor rights of staff and workers manifests itself in two directions. One, a guarantee of the right to freely select the enterprise, and two, development of the economy to the end that full employment will be achieved.

c) We must make preparations for the strained situation that is bound to arise after instituting strict labor management. On the one hand, we must perfect the system of social security, which must ensure the livelihood of unemployed workers and enable them to retrain for reemployment. On the other hand, we must perfect the system of public safety, strengthen our public safety forces and the administration of public order, and perfect the legal system, so as to eliminate any fear of disturbances that enterprise administrators may otherwise have.

#### VI. The Problem of Overseas Marketing of Joint Venture Products

A. Overseas marketing of products is a key problem in the management of joint ventures, as it relates directly to enterprise efficiency, balancing foreign exchange, and even to the foundation of Sino-foreign cooperation. Because of difficulties connected with the initial period in the development of the development zone, difficulties will occur in the overseas marketing of products of joint ventures of the development zone. Here we cite two sets of statistical data (1) Spot checking 38 enterprises, their overseas contract sales ratio is on the average 69.7 percent, among these, 23 enterprises, i.e. 60 percent of the total number, exceed 80 percent. (2) Of the 50 foreign-financed enterprises that had started production in 1987, the average rate of contracts for overseas sales was 60 percent, but during that period the rate of actual overseas sales was only 30.1 percent. B. This situation was mainly due to the following causes:

(1) Too many exaggerated figures in the feasibility study. To counter the pressure and business level of the above items, due to insufficient actual experiences, added to it, the exaggerated overseas sales possibilities presented by the foreign businessman, caused an incongruity between the contractual overseas sales ratio and the feasibility of selected pattern of product, item quality, and market analysis forecast, which was obviously inordinately high.

(2) Problems that exist in other technical details of the project, as, for instance, in the supply of raw and semifinished materials, the technological level of equipment, fluctuations on the international market, and other such problems.

(3) Problem of product quality. Due to the low technological quality of the enterprises, there is no assurance in the case of some enterprises as to the proper operation of the equipment, as to product inspection, and as to quality control.

(4) Due to the low rate of achieving production targets, expenditure apportioned as unit cost is comparatively high, the scale of production is not economical, and the price advantage in the exports of the products is lost.

(5) Due to various restrictions imposed by the system, the Chinese side cannot dispatch personnel to reside abroad and to set up its own marketing network. It is

even more difficult to hold sales exhibitions abroad. Equally difficult is it to obtain foreign publications and newspapers to peruse. That leaves the Chinese side with a lack of information and lack of channels.

C. Joint ventures of the development zone have carried out some experiments in marketing, including setting up sales channels, sales networks, expanded propaganda, etc., achieving very good results.

Of course, it requires a longer period of time to establish marketing channels and setting up sales networks. At present, the Tianjin development zone has only a few enterprises that have instituted these experiments, as, for instance, the Tianrong Wooden Board Company. As a further development, this company has changed the system whereby the foreign chief manager was exclusive overseas sales agent to a system of joint overseas sales to be carried out by the Chinese and the foreign chief managers, and by further efforts, the company has gradually reduced the ratio of contractual exclusive sales. This new system is undoubtedly a good experiment as far as the joint ventures of the development zone are concerned.

The problem of marketing also comprises the problem of sales tactics. For instance, low production costs of products are advantageous in overseas marketing, but not necessarily a low sales price. The Tianrong Wooden Board Company had good sales on the European market when its price was somewhat higher than similar products, but sales sagged when its prices were somewhat lower. It was here a matter of confidence in the correct price. When the Jincheng Photoelectric Company produced laser reflector plates, using the most advanced equipment in the world, with a quality better than the same products from South Korea, it was still unable to persevere against the competition. It was here a question of propaganda, also a question of trust built up through many years of cooperation. The only way to cope with all these various problems is to gain a gradual understanding in actual overseas marketing practice, to study, and to master the problems.

### Problems With Foreign Trade Reform

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[Article by Zhang Songlao 1728 2646 3447: "Problems in China's Reform of the Foreign Trade System"]

[Excerpt] Practical experiences of 10 years of reform tell us that some of the tenacious ills of a radical nature in China's foreign trade system have not yet been eliminated, and that it is still necessary that the reform be further reappraised, pursued eclectically and in greater depth, and ultimately perfected. The following are the most important difficulties in the current system:

(1) Failure to separate government functions from enterprise management is still having its adverse effects.

Although the problem is, for a certain time already, well understood in foreign trade circles, the difficulties of really bringing about a change, realizing the division of functions, and of having each side stick to its own tasks, are still great. This is so because the problem is not limited to the field of foreign trade alone, as we find the fault in the operational mechanism of Chinese traditional economics, namely the practice of "having government act in place of enterprise management" and "having enterprises exercise government functions," still prevailing to an extremely wide extent. This goes so far as to have each unit doing things its own way, and multiple differing orders issuing from different government organs, a situation that leaves the enterprises without their own initiative or vitality, and leads to excessive interference by government administrative orders in the actual business operations of the enterprises. To effect a radical cure of this tenacious illness, it is necessary to gain a high-level overview of the whole sphere of the economic and political reform. It would be extremely difficult to achieve the cure by relying only on one department or one system. Even if it were possible to formally effect the separation of government and enterprise, it is very likely that such an effort would fall short of the intended objective due to the effects of the surrounding environment (i.e. the overall incongruities within the reform).

(2) Although the contract management responsibility system has been able to bring about a change from the former system of "everybody eating from the big pot," which had the central authorities bear all losses, to a system of "each unit having its own kitchen," thus achieving at least a minimal combination of responsibility, power, and interests, compared with the past situation, the extent and actual effectiveness of this combination abundantly demonstrates that the said combination is only in its initial stage and a substantial distance away from the reform objectives that we want to realize and achieve. The present responsibility-power-interests relation within the reform of the foreign trade system that we are practicing, is, as applied to the foreign trade enterprises, merely a state of gradually passing on responsibility to each progressively higher leading organ. It contains little profit motivation, or, let us say, incentive and encouragement for the enterprises themselves. There remain, furthermore, many obstacles in the internal benefits distribution sector within the enterprises. At the same time, because of the contract management responsibility system, which has the interests of the localities, departments, and enterprises as its core concern, there is perhaps, objectively, an overemphasis on promoting the interests of the localities, departments, and enterprises, thus a disregard and neglect of the overall interests of the state, the macroeconomic interests, and the long-range interests of the nation. This will lead to short-range actions by enterprises and their erroneous tendencies that run counter to the state's production policies, import-export mix policies, and import-export development strategy. As a consequence, the directional function of state policy

assumes a certain element of uncertainty, being easily swayed by the actions, good or bad, of the local governments and enterprises. This is expressed popularly in many ways, such as "meeting policy formulated by higher authority with some disarming countermeasure by the lower authority," "availing oneself of loopholes in state policy," and so on. One example was the recent export by some districts of excessive amounts of materials, although there was a shortage of them domestically (e.g. pig iron). Besides, the forms adopted in foreign trade matters nationwide were mainly contractual undertakings by regional systems. This tainted the character of the nationwide transfer of authority from the central authorities to the local authorities within the reform of the economic system and easily led to a trend toward a "multiplicity of centers," which possibly delayed the formation of a unified and genuine market system and engendered certain difficulties for the circulation of import-export goods in a unified market throughout the country, and other respects as well.

3. Operation of all such regulatory and control measures as prices, exchange rates, customs duties, and interest rates is swayed by the course of the nationwide reform of the economic system, and these measures cannot fully play their role in the area of foreign trade. Enterprises engaged in import and export cannot yet fully operate and administer their business operations according to the principles of truly businesslike enterprises. The many policies concerning macroeconomic control and microeconomic invigoration are not fully coordinated, and the condition that would allow all the various types of foreign trading companies to launch fair competition in an environment of equal opportunities is still in the making. Macroeconomic control is still predominantly direct control. A system of economic regulation of foreign trade, which has Chinese characteristics and can be effectively applied, is still in its embryonic stage. The new system and the old system, one waxing and one waning, confront each other, and a state of friction has already arisen, so forth and so on. The presence of all these facts constitute the main reason for the "labor pains" in the reform of China's foreign trade system.

#### **The Suggestion: Intensified Reform of China's Foreign Trade System**

Basing on China's national condition and resources, and considering whatever could give major impetus toward development of foreign trade, toward wider opening up to the outside, toward deepening the economic reform, and what could bring about an upswing in the economy, we must thoroughly review and question China's past conduct of foreign trade, especially the reform practices of the last 10 years. We must then direct our attention to the main shortcomings that persist in China's foreign trade system, and must intensify our studies of certain fundamental questions in the reform of China's foreign trade system, including at least the following topics:

—The unity, compatibility, congruity, and mutually complimentary nature of the foreign trade system reform

in relation to the overall objectives of the reform of China's economic and political system.

In this respect, we must on the one hand give expression to our engagement in reform, opening up, and invigorating the economy in China's entire economic life, and on the other hand we must also give full consideration to the peculiarities of foreign trade and its minimum demands during participation in the competition and exchange processes in the global market. Reform of the foreign trade system and reform of the entire economic system must mutually compliment and stimulate each other, and it has to be for the common benefit of both.

—Realising business operations by truly businesslike enterprises, liberating foreign trade enterprises and the internal capabilities of production enterprises, truly bringing about the unity of power, responsibilities, and interests, and invigorating export-oriented production enterprises and marketing enterprises. Practice has proven that subordination of foreign trade enterprises under foreign trade administrative departments is not only detrimental for the state's effective control of the entire country's foreign trade activities, but also detrimental for a full development of the vitality of the foreign trade enterprises. Administrative departments in charge of foreign trade must effect macroeconomic guidance, administration, and control of the economic activities of the various kinds of foreign trade enterprises mainly by means of economic and legal measures, and by administrative measures, if such are necessary, to achieve adherence to plan, harmonious cooperation, service-oriented compliance, and their supervisory effects. Foreign trade production enterprises and marketing enterprises are mutually independent economic entities, each being responsible for its own profits and losses. According to the principles of truly businesslike enterprise operations, they act on their own in production and business activities, and the profits or losses in trading import or export commodities are directly linked with the existence and development of the marketing or production enterprises, also closely linked with the personal interests of the enterprise leadership and its numerous staff and workers. As a result, this would achieve the objective of liberating in stages potential capabilities in foreign trade enterprises and production enterprises.

—Promoting combinations of various types of enterprises and foreign trade enterprises, taking the path of linking industry with trade, agriculture with trade, technologies with trade, and gradually changing over to a system of import-export agency operations.

Combination brings greater efficiency. In the field of foreign trade, we must always emphasize the closest linkage between production and marketing enterprises. On the premise of having gained a firm grip on macro-benefits, the linkage of production and marketing, and bringing as far as possible China's domestic economic advantages into play, are powerful weapons in global

competition. Acting in this way will also provide favorable conditions China can enjoy, being a socialist country practicing planned commodity economy, as it will enable China to bring its national advantages fully into play in its foreign trade. An outstanding characteristic of planned commodity economy is that it can effectively mobilize all forces throughout the country for a conscious and rational distribution of resources, and through a variety of economic organizational measures effect lateral and vertical coordination and stimulation, and thereby achieve the objective of a close linkage of production and marketing. Linkage of production and foreign trade is essentially an endeavor to achieve consistency between production of a product and its sale, between production technology and gain from the sale, and finally it expresses the unity of benefit and risk. On the premise of a unity of economic benefits and shared enjoyment of such benefits by production and marketing enterprises, it is necessary to adopt linkages of a variety of forms to achieve the optimal combination. This will create an overall production-marketing situation that will stimulate upgrading and updating of products, producing easily marketable products, and producing products needed in the international market. It will then also achieve "comparative economic benefits" of foreign trade. During this process, we should gradually institute a system of import-export agency operations in foreign trade, further tighten relations between production and marketing, making the management of the production enterprises directly affect the international market exchange.

—According to the national macro-development plan, the developmental strategy of foreign trade is to "effect a linkage of export guidance and import substitution." China has a vast territory, abundant natural resources, and a certain industrial base, but is comparatively backward in such basic industries as energy sources, communications, information transmission, and raw and semi-finished materials. Its technological and managerial levels are also comparatively poor. China is a large socialist country in the process of development; it has a comparatively large domestic market and a population which urgently demands raising its standard of living. With its national conditions being what they are, I believe the foreign trade strategy of "a linkage of export guidance and import substitution" is very well suited to the realities of China. This demands us to adopt a whole series of strategic measures to support and encourage exports, enhance our capabilities to export and earn foreign exchange, and to improve our import-export commodity mix. We should first develop the coastal regions, adopt an export-oriented strategy, energetically develop export industries, and accumulate strength for the national economy as a whole. This should comprise raising the technological level and improving our managerial capabilities, promoting linkages and cooperation between industries, opening up overseas markets, and earning hard currency. By implementing this policy, we shall lay a solid foundation for the whole range of China's exports. It will play an exemplary role in respect

of raising our export and foreign exchange earning capabilities, improving our export product mix, enhancing the quality of our foreign trade work force, and will also provide all the various preconditions for our country as a whole to gain entry into the international market. It will thus create the material guarantees for realizing import substitutions. China's import substitution industries must be those leading industries which already have a certain base in the national economy, though urgently in need of transformation and upgrading, comprising such industrial sectors as iron and steel, motorcars, shipbuilding, electronics, light and textile industries. Through effective import substitution, we shall in particular solve key import problems, adjust the import commodity mix, and clearly establish that our primary import objective is to satisfy the needs of basic industries, which are now in need of improving technologies and enterprise quality. Thus, we shall ensure accuracy and uniformity in our import objectives. On condition of a comprehensive improvement of enterprise quality, we shall indeed achieve the objectives of import substitution.

—Establishment and perfection of the system of macroeconomic regulation of our foreign trade, changing the former system of direct controls mainly by means of administrative measures and command-style planning to a system of indirect controls by economic measures and legal guarantees. In foreign trade, the said economic measures mainly assume such regulatory forms as exchange rates, pricing, taxation (including customs duties), interest rates (including import-export credits), costs, permissible retention of foreign exchange, redistribution of foreign exchange, and export rewards. Flexible application, timely readjustments, a variety of components, differentiating between various conditions, and giving prominence to key points are the foundation for the establishment of a system of macroeconomic regulation. We must distinguish between the functions of the various kinds of regulatory and control measures, adopt a flexible mechanism that is suited to the operational laws of the cases in question, differentiating it from the domestic trade and production, and have the operational mechanism of China's foreign trade established within an objective environment of full application of macroeconomic regulatory levers, and adopt as mechanism one that is full of vigor and vitality, and capable of self-regulation and self-control. It has to be pointed out that between the various economic regulatory and control measures there is interrelationship and mutual supplementation, but also mutual restraint and mutual repellence. Different associations, or use at different times, can bring about different results. Due to different material interests of departments, localities, and enterprises, it is also possible that the transmitted signals of the various economic regulatory and control measures become distorted. In such cases it is necessary, when we handle or apply these measures, that we pay attention to the composite configuration and act carefully.

As far as foreign trade is concerned, the most important thing is to fully satisfy the demand to yield benefits for

the state, and to constantly emphasize that it is for the benefits of the state as a whole that these measures are adopted in our participation in the world's economic and political activities. Anything is only acceptable if it suits the state's overall interests. Otherwise, if it benefits only microeconomic or medium economic interests and is harmful to the whole, it must be rejected. Success or failure in the establishment of a macroeconomic regulatory system will to a large extent be determined by the way we shall be able to accurately handle and adjust the macroeconomic, medium economic, and microeconomic interests. The accurate differentiation and full mastery of these three types of interest is still the focal task of the reform of the foreign trade system. We must give this question our utmost attention and gain a sober understanding of the problem. —Creating an internal environment that is consonant with participation in the multilateral international trade system, a wider opening of our country's gates, opening of all our positions to the outside world, and ensuring comprehensive implementation of China's foreign trade policy. To invigorate foreign trade requires not only overall reform measures domestically, but also that we declare to the whole world: China's policy of opening up to the outside world is a firmly established policy, once the large gate has been opened, it will never again be shut. It is therefore an extremely important part of our endeavors to more thoroughly study the multilateral international trade system, to participate in it, and to play an active and effective role in it. This active study and participation is not only of potential economic significance, but, even more importantly, comprises an extremely abundant and immense political significance. It declares to the whole world by real action that China, a developing country, will devote its energies toward the prosperity and development of world economy, that it will, through multilateral cooperation and international exchanges, develop the economies of other nations, and vigorously develop its own country, that it will exert efforts in striving for the country's prosperity and strength, for its people's happiness and well-being, and that China's policy of opening up to the outside world will never change. To have China's foreign trade achieve these effects, it is necessary to further gain clarity in our minds, and accomplish in our trade activities not only implementation of China's foreign policies, but also link up with and give full consideration to the various internal demands of the multilateral international trade system. It will also be necessary to develop relations and exchanges between China and the global economy on the basis and principles of equality, mutual consultations, mutual motivation, and common benefit, thus activating China's developmental strategy in foreign trade and creating the necessary objective environment for the objectives of our reform.

The reform must constantly be moved forward, the reform must be theoretically founded, and the reform requires the review of past experiences. Although China has engaged in the reform of its foreign trade system for almost 10 years, practice is still challenging us, and

theory has fallen behind in relation to reform practice. As a type of guideline for our thoughts, this article has progressed from reconsiderations to new concepts. It has drawn a rough outline for the continued pursuit of the reform of China's foreign trade system, with the desire that the article may serve, in its present form or an additional exploration, as a means of eliciting enlightenment from the many existing schools of thought.

### Foreign Businessmen Sticking to Joint Ventures in Tianjin

*zhongguo shi hong kong CHING CHI TAO BAO /ECONOMIC REPORTER/ in Chinese  
No. 25, 26 Jun 89 p 7*

[Article by staff reporter Ku P'ei-yung 7357 1014 1938  
"Tianjin Joint Ventures After the Turmoil"]

[Text] In China the Beijing Incident has now subsided and politics is tending toward stability. At this time what is the situation obtaining in the production by joint ventures? Will the interests of the foreign side be damaged? What are the prospects for continued cooperation? These questions are of extreme importance to foreign investors. On 15 June this reporter took these questions to joint ventures in Tianjin Municipality, where he conducted interviews and found out how things stood.

### Firm Belief That the Process of Opening Up to the Outside World Will Not Draw Back

The first factory that this reporter visited was that of the Sino-Japanese joint venture Tianma Sewing Machine Manufacturing Company, Ltd. Receiving me was Mr (Shitagawa), the Japanese side's general director. After I explained my reason for coming, General Director (Shitagawa) in an affirmative tone said: During the Beijing Incident our company's economic activity remained normal, and the production morale of the workers was very high. The May production and marketing plans were both fulfilled, and 200 sewing machines were exported while 129 of them were sold in China, a big increase over the sales in April. It is estimated that the production plan in June for 310 sewing machines will also be fulfilled, and it is predicted that there will be a small number of them above quota. He said with full confidence: The situation in Tianjin is perfectly stable, and making an investment in Tianjin is like winning a "lottery prize." Like Tianjin itself, there is good weather and bad weather, and if one cannot take the bad weather one will panic. I expressed my appreciation for Mr (Shitagawa)'s views. He continued: Therefore, the \$840,000, which the Japanese side had originally decided to reinvest for expansion, were remitted to Tianjin on 25 May. A person on the Chinese side added that this was after martial law had been imposed on some areas in Beijing. Naturally, at the end (Shitagawa) said: We worry that in the future transportation will be affected, delaying the import of parts and the export of

products, but we believe that this also will gradually take a turn for the better, and we pray that the future will become better and better.

Not far away from this joint venture, on the broad Hongqi Road, is a brand new joint venture factory, that of Tianjin's Jinda Clothes Manufacturing Company, Ltd. When I interviewed (Cepichino), the Italian deputy general director of this company, he said: "We have six Italian nationals here, and three of them are on home leave in Italy. They left just a few days ago, and this was a normal leave for all of them. During the most tense days, the head office in Italy telephoned us, as did the embassy, saying that we should evacuate. I think that in Italy in the seventies a similar situation occurred. He added: My work and life are in Tianjin. Tianjin's situation is completely stable, and I have no reason to leave Tianjin. I firmly believe that the process of China's opening up to the outside world will only advance, not retreat, and we will not leave."

#### In the Recent Period Everybody Has Returned to Tianjin

Otis Elevator, Ltd. is one of the biggest joint ventures in Tianjin Municipality. Before I went to this company, an official of Tianjin Municipality's Foreign Economic Relations and Trade Commission told me that the American side's personnel of Otis, on orders from the head office, had withdrawn to Hong Kong. Receiving me was Wang Yunqi [3769 7189 6386], the Chinese side's deputy general director. He told me that after the American side's personnel withdrew, the Chinese side's managerial personnel stuck to their posts and directed production. The workers' enthusiasm for production was very high and their attendance rate reached 97 percent. From May to the present, the company's production plans have been overfulfilled. Deputy General Director Wang Yunqi went on to say: We sent reports on the production situation at regular intervals to the general director in Hong Kong, and he expressed gratification. The American personnel asked the head office for instructions and are preparing to return to Tianjin in the near future.

The Daya Pharmaceutical Company, Ltd. is also one of the enterprises from which the foreign side's personnel withdrew. The Chinese side's factory director told this reporter: After the Japanese side's personnel withdrew, because of the sharp demand for our factory's products, in production we encountered the problem of an insufficient supply of raw materials and a problem in transportation. These problems were reported to the Tianjin Municipal People's Government. The Tianjin Municipality leaders promptly devised ways to solve the problems. The production tasks were overfulfilled, the urgent needs were satisfied, and the joint venture's interests were protected. On the morning of the day that this reporter visited the factory, the Japanese side telephoned the factory, "On 19 June all of the Japanese side's personnel will return to Tianjin."

#### Investment Plans Continue To Be Implemented

The American company Motorola is one of the five major communications equipment companies in the world. Two years ago this company made selective investments in China. The last selection was to establish a production base in the Tianjin Development Zone. Because of the bloody incident that occurred in Beijing, the American side indicated that this project was on hold. In view of the recent turn for the better in the Beijing situation, the greater part of the foreign businessmen in the Tianjin Development Zone kept on working here, which boosted the confidence of this company in its Tianjin investment. On 14 June the Tianjin Economic and Technological Development Zone received a telephone call from the American company Motorola, saying that the company had decided to continue to implement the plan for the semiconductor parts production base, for which it had made an independent investment of \$400 million. Mr (Mamajima), the Japanese side's general director of the Yamaha Electronic Musical Instruments Company, Ltd, which is a Sino-Japanese joint venture, received a telephone call from Japan making clear the Japanese position that its investment plan for the company had not changed, and that it hoped construction would be intensified so as to strive for putting the factory into trial production by yearend.

#### ECONOMIC ZONES

##### Zhuhai Key Construction Project

40060698B Hong Kong WENHUI BAO in Chinese  
4 Jul 89 p 34

[Article by staff correspondent: "Large-Scale Development of the West Zhuhai District; Capital Constructions Available for Cooperative Projects—Expenditure of \$3 billion Anticipated for Development of Communications and Energy Sources"]

[Text] The plan to develop the West Zhuhai district at an anticipated cost of \$3 billion came under the dark cloud of the June 4th incident in Beijing, but relevant persons in charge indicated that the plan will still be carried out. After a preparatory period of 2 years, actual work will start in 1991, and the plan calls for an investment of 10 billion RMB [renminbi] by 1995.

The West Zhuhai district was established last year, with a total area of 577.4 square km. It is planned to create an important base for large-scale industrial projects of an export-oriented international character. Mainly energy sources, communications, harbor works, and other heavy industry projects will be developed, but also projects of modern agriculture and the tourist industry.

Projects that will be open for participation by foreign businessmen will comprise construction of a power plant, a deepwater port at Sanzao, construction of a rail line connecting Jiangmen and Guangzhou, repair and

restoration of the airfield at Sanzao, construction of a freeway into the center of Zhuhai City, development of heavy and chemical industry, aquaculture, and tourism.

It is learned that the Zhonghua Power Company of that port, the Yuehai Group, and Zhuhai City will jointly invest HK\$1.98 billion [Hong Kong dollars] to build the Nanshui power plant. Contracts have been signed, and work is expected to begin toward the end of this year. The ratio between Chinese and foreign investment is that foreign investment will be 70 percent and Chinese investment 30 percent, consisting partially of land contributed for use. The capacity of the plant will be 600,000 kilowatts; the initial stage of the engineering project will provide 400,000 kilowatts.

Other projects for additional energy are the planned construction of a 4-million-ton capacity oil refinery and a 400,000-ton capacity ethylene plant. These plants will use imported Saudi Arabian oil as raw material. The total investment for these petrochemical projects will be over \$2.5 billion, and negotiations are presently in progress with Taiwanese and South Korean businessmen.

The key project in the development of the entire West Zhuhai district is the Gaolan deepwater port. The harbor is 45 nautical miles from Hong Kong. It is a natural deepwater harbor, with an 82-square-km harbor basin and 20 km of usable coastline, double the size of Victoria Harbor in Hong Kong. It can accommodate oceangoing freighters of over 100,000 tons and will be able to tranship by 3,000- to 5,000-ton ships directly to Xinhui, Zhongshan, Foshan, Jiangmen, Zhaoqing, and other places through the inland waters of western Guangdong Province. It is estimated that the deepwater harbor and supplementary developments will require an expenditure of \$1 billion.

#### 1989 Shantou Economic Development 'Steady'

40060698 Beijing GUOJI SHANGBAO in Chinese  
20 Jul 89 p 1

[Article by correspondent Yang Zhicui 2799 0037 3862: "Steady Economic Development of the Shantou Special Zone During First Semester"]

[Text] During the first 6 months of this year, the Shantou Special Economic Zone [SEZ] has firmly persisted in reform and opening to the outside world, and by integrating improvement of the economic environment and rectifying the economic order with efforts to perfect the SEZ's investment climate, straightening out its administrative mechanism, and developing its productive forces, the SEZ has achieved excellent successes in overcoming difficulties and consolidating its economy. The SEZ has signed contracts for 131 foreign-financed projects, with a commitment of \$116 million of investments and an export value of \$131 million. These figures constitute increases of 53.2 and 143 percent, respectively, compared with the corresponding period last year.

At the beginning of this year, the Shantou SEZ's party committee and the SEZ's administrative committee made a full appraisal of certain adjustments that the SEZ will be facing this year in the state's preferential treatment of the special zone and of the grim situation of the zone's low level of productive forces and the conspicuous supply-demand disparity for water and electricity. They adopted a combination of administrative and economic measures of regulation and control to promote the establishment of industries, develop production, and also to invest resources in the establishment of a foreign investment promotion office to speed up prompt utilization of favorable international opportunities for the attraction of foreign investments. Among the 131 projects for which contracts were signed during the first 6 months of the year, 77 projects were for direct foreign investment, of which 28 were joint ventures, 20 were cooperative enterprises, and 29 were solely foreign-financed enterprises, with a total commitment of \$99.39 million. At present, 69 projects are in progress, and the amount of actually used foreign capital is \$17.28 million, a 193 percent increase over the corresponding period of last year. Among the projects introduced from abroad, there is a cooperative project with a Taiwan firm for the manufacture of ceramic materials for electric purposes, a cooperative project with a Japanese firm for manufacture of "adriamycin hydrochloride for injection" as a cancer cure, of solar water-heating devices, of organic glass, and other projects. All these are projects of a high technological level and for products of excellent quality.

During May and June, when there were disturbances in Beijing, the administrative committee of the Shantou SEZ promptly adopted effective measures to stabilize work order and to reassure foreign merchants, so as to quickly dispel all their anxieties and restore investment confidence. Production continued normally in all the SEZ's plants and enterprises; not one of the enterprises with foreign investment stopped work, and most of the foreign businessmen and technical personnel continued working. Negotiations for some projects, which had been interrupted, have now resumed after careful efforts had been made to that effect.

#### LABOR

##### Income Disparity Between Manual, 'Mental' Workers

40060699 Beijing JINGJI LILUN YU JINGJI GUANLI /ECONOMIC THEORY AND BUSINESS MANAGEMENT/ in Chinese No 3, 28 May 89 pp 51-52

[Article by Nie Delin 5119 1795 2651 and Wang Yuying 3769 3768 2651 of the Beijing College of Science and Engineering: "The Income Disparity Between Manual and Mental Workers and Its Serious Consequences"]

[Text] Karl Marx made a distinction between simple and complex work that is done to produce commodities. He used the following two major factors to determine the complexity of work: 1) skills; and 2) utilization of

knowledge or size of the mental component in the work process. Manual labor is generally simple work, while mental labor is complex work. According to Marxist theory on the value of labor, since complex work is much harder than simple work, mental labor creates a value that is many times higher than that produced by manual labor. The rational conclusion derived from this is that the income of mental workers in a commodity economy should be many times higher than that of manual workers. In a socialist system, this is an objective requirement of both the law of value and the law of distribution according to work. Serious consequences are inevitable when these economic laws are violated.

An abnormal economic phenomenon has long existed in China. That is, the average wage income of mental workers is generally lower than that of workers in all sectors, which actually means that the average wage income of mental workers is lower than that of manual workers. People call this economic phenomenon "the income disparity between manual and mental workers."

The income disparity between manual and mental workers in China can be seen in the disparity in the average wages of staff members and workers in all sectors of the state-owned economy since the initial postliberation period. Except during a very few years, the average wage index of workers in the science, culture and education, and health sectors has clearly been about 10 percent lower than and second to that of workers in all sectors for approximately the last 30 years. Of course, staff members and workers in the science, culture and education, and health sectors are certainly not all mental workers, nor are those in all other sectors all manual workers. But most staff members and workers in the science, culture and education, and health sectors are certainly mental workers.

Mental workers include mainly scientific researchers, engineers and technicians, enterprise managers, government office workers, and teachers, while manual workers are mostly laborers and service personnel. Survey data for Beijing Municipality show that enterprise staff members and workers receive average wages of 133 yuan a month and average bonuses of 54 yuan a month for a total average income of 187 yuan a month, while staff members and workers in government institutions receive average wages of 127 yuan a month and average bonuses of 21 yuan a month for a total average income of 148 yuan a month. Thus, staff members and workers in enterprises receive 39 yuan, or 26.4 percent, a month more than those in government institutions.<sup>1</sup> The income disparity between manual and mental workers can be seen even more clearly here.

Furthermore, there are also income disparities between workers with different educational levels. Staff members and workers of similar seniority with education at the technical high school level and above receive average income of 169 yuan a month, whereas those with educational levels of junior high school or less receive an average income of 194 yuan a month. Thus, those with

educational levels of technical high school and above receive average incomes of 25 yuan, or 14.8 percent, a month less than those with educational levels of junior high school or less.<sup>2</sup> Regardless of the viewpoint, this income disparity between manual and mental workers should not exist because it plays no positive role, can have only negative effects, and is having the following increasingly serious consequences.

#### I. Middle-Aged Intellectuals Are Declining in Health, Taking Sick, and Dying at Higher Rates

A survey that was conducted by the State Science and Technology Commission (SS&TC) and reported in KEJI RIBAO on 7 July 1988 found that 61.6 percent of the 37,000 middle-aged intellectuals who were surveyed suffered from chronic diseases. KEJI RIBAO also reported on 18 April 1988 that the death rate for middle-aged intellectuals was more than twice that of the aged and was still rising. Statistics show that China had 8,253,100 scientists and technicians in 1986, of whom 4,308,900 were 36 to 55 years old and 286,600 were over 56 years old. According to the 61.6-percent disease rate, over 2,650,000 middle-aged Chinese scientists and technicians suffer from chronic diseases. China had an overall death rate of 6.7 percent in 1986. Since the death rate for middle-aged scientists and technicians is 2.5 times higher than the normal death rate, almost 27,000 of the average of more than 44,000 deaths each year are abnormal. Data reported in CHINA SOCIAL STATISTICAL DATA in 1987 show that China had 38,210,000 mental workers in 1985. According to the above disease and death rates, this means that there were even more disease and abnormal deaths in 1985. The direct cause of these consequences is that mental workers have too heavy workloads, receive too low salaries, have a long-term physical output that is higher than their capability, are in an imbalanced state of "too little input and too much output," and are unable to maintain even simple labor reproduction.

#### II. Too Heavy Workloads and Too Many Livelihood Worries Are Seriously Diverting the Work Energies of Specialized Technicians

A recent sample survey conducted by the SS&TC found that only 14.6 percent of China's 10,030,000 specialized technicians (not counting grade school and high school teachers) are able to work up to their full capacity, while the other 85 percent and more are unable to work at varying degrees at their full capacity. According to the utilization rate for human resources, this means that 3,440,000 specialized technicians a year are in an idle state of merely holding down jobs without doing any work. This is even more than the number of technical high school and college graduates that China has trained in the last 3 years. Of course, there are many reasons for this situation, but it cannot be denied that one of the major reasons is that too many specialized technicians have too heavy workloads and too many worries about their livelihoods.

### **III. China Is Experiencing a Brain Drain and a "Mania for Going Abroad"**

Everyone is talking about and evaluating differently the "mania for going abroad." There are many objectives and motivations for going abroad, such as study, advanced study, advanced study to return and serve China, and broadening horizons to return and work in a greater capacity. But it cannot be denied that other people also leave very reluctantly because China's working and living conditions are too poor and it is hard for them to put their talents to good use. We think that these people leave because of our major long-term policy mistake of having an income disparity between manual and mental workers. If fundamental policy revisions are not made, even more serious future losses will be sustained.

### **IV. Knowledge is Considered Worthless and "Learning is Considered Useless"**

That knowledge is worthless and "learning is useless" sums up people's views on a series of social phenomena and reflects an aspect of social reality in their minds. It is worth noting that gradually increasing numbers of students from junior high school to high school to college to graduate school are now dissatisfied with their studies, are tired of studying, and are dropping out to go into business. Why is this happening? We think that the major reason is the income disparity between manual and mental workers. A Shanghai high school teacher told us that "Some students who did not get into college, but got rich selling popsicles instead, drive their motorcycles past the school and ask 'What is the use in studying? Although selling popsicles doesn't require mathematics or chemistry, it pays much better!' This is a much stronger incentive than 10 college courses in political education."

Experience is certainly the best teacher and has a profound effect on people's education. From the perspective of people's material interests, as long as barbers make more money than surgeons, merchants make more than writers, unskilled labor pays better than highly skilled work, vendors get paid better than scientists and, in short, manual workers always make more than mental workers, how many people will actually willingly and gladly spend 10 to 20 years studying to become scientists?

### **V. It is Becoming Harder for China's Education, Science, and Technology To Grow and Flourish, and There is a Danger That China Will Fail To Attain Its Economic Development Strategy Aims for the Mid-21st Century**

Everyone acknowledges that China's education is certainly very undeveloped. A comprehensive analysis and appraisal of seven educational indexes in 75 countries that was carried out by two Harvard University economists, found that China's education was 26th from the bottom, or in 50th place, and even less developed than that of India, Egypt, and Thailand. If the disparity

between manual and mental workers continues, China's education gap will continue to widen.

From a lateral perspective, Japan trained 110,000 PhD's from 1958 to 1984, while China had trained only 1,200 PhD's, or 90 times less than Japan, by 1987. The JAPAN ECONOMIC NEWS reported on 8 January 1987 that "Japan now has 795,900 people engaged in scientific research." China had only 365,800 scientific researchers, or less than one-half that of Japan, in its state-owned units in 1986. Japan had over 514,000 applications for patents or for use of new technology in 1985, while China had only 14,000, or 2.8 percent that of Japan. The present qualified personnel and S&T [science and technology] are products of past education, and present education will be a decisive factor in the future development level of S&T and the productive forces. The key to narrowing China's education gap will be to genuinely value education. Concepts must be changed first, investment in education must be considered a productive investment, and conscientious steps must be taken to basically change the income disparity between manual and mental workers. Even though China is experiencing fiscal difficulties, it must still be willing to spend the money necessary to accomplish this. China's present economy is in much better shape than the Soviet Union's was after Russia's October Revolution. Vladimir Lenin took a strategically farsighted approach to education and intellectuals at that time. He pointed out clearly that "We should give intellectuals the best living conditions that we can in the transition period. This will be the best policy and the most economical method. Otherwise, we might save hundreds of thousands of rubles just to fail, or even spend hundreds of billions of rubles in a vain attempt to compensate."<sup>3</sup> China's economic construction lacks both funds and technology but, in the final analysis, it mostly lacks qualified personnel. With many talented personnel who are qualified to carry out modernization, many funds can be raised and S&T will be able to flourish sooner. This is a universal law for the growth and prosperity of economically undeveloped countries in the present age. The issue was scientifically summed up in the 13th CPC Congress report as follows: "Scientific and technological development, economic prosperity, and even overall social progress all basically depend on improving the quality of workers and training many qualified personnel. Education is a basic project of vital and lasting importance. We must persist in giving a prominent strategic position to developing education and improving intellectual development." The key to whether China can achieve its scheduled strategic economic development aims for the mid-21st century is whether it can train many qualified personnel. If China fails to achieve these aims, its name may be erased from the "earth's rolls."

#### **Footnotes**

1. See GUANGMING RIBAO 6 October 1988.
2. Ibid.
3. V.I. Lenin: *Collected Works*, Vol. 3, p. 821

### Reform of Job Assignment System for 1989 College Graduates

40060622 Beijing LIAOWANG /OUTLOOK/ in Chinese  
15 May 89 pp 9-10

[Article by Zhou Daping 0719 1129 1627: "The Job Assignment System for 1989 College Graduates Is Being Reformed"]

*[Text] Editor's Note: Although it certainly does not cover them all, this special report still reflects various aspects of many issues that are facing the job assignment system for college graduates. The change from a state-planned centralized placement method that developed along with a product economy to a placement method that is suited to a planned commodity economy is a major reform of the job assignment system for college graduates. This reform certainly must be carried out, but other matching steps must be taken to accomplish it. From the perspective of this special report, reform of the job assignment system for college graduates must be coordinated with other college reforms. College curriculums, educational objectives, teaching methods, and enrollment plans must all be correspondingly improved to better coordinate them with social needs for qualified personnel and make them better able to deal with contingencies. Moreover, short-, medium-, and long-range social needs for qualified personnel must all be taken into account. Reform of the job assignment system for college graduates must also be coordinated with reform of the public personnel system. Only if all personnel departments truly allow job seekers to have decisionmaking power, freedom of movement, and freedom of choice, can the present troubled situation (caused by rigid overstaffing) be alleviated and the possibility of dual options for college graduates be realized. If reform of the job assignment system for college graduates is not synchronized with improvements in established party and social practices, rampant backdoor influence will make it very hard for the best qualified personnel to be able to choose the best jobs and compete on equal terms. Reform of the job assignment system for college graduates finally must parallel changes in college students' value judgements. This is an essential prerequisite of the "Matthew's Effect" in changing personnel assignment. In summary, reform of the job assignment system for college graduates is a kind of systems engineering in which neglecting to take one aspect into consideration might affect the overall operation and the options of undergraduate and even high school students. We cannot wait to put this reform into effect until everything is ready, but we certainly must act with caution and gradually carry it out with state macroeconomic regulation and control, and also with active support from all sectors of society. This special report is being published in hopes that the people who are following with interest reform of the job assignment system for college graduates will be able to study the reform in more detail so that it may be more successful.*

The task of assigning jobs to 1989 college graduates is going smoothly. Guided by the principle of combining directive plans with individual decision making while

suitably increasing planned job advertisements, all organizations affiliated to ministries (commissions) and provinces (municipalities and autonomous regions) began the task of assigning jobs to 1989 college graduates early and emphasized it carefully. Most of the more than 500,000 college graduates of 1989 already had a clear idea of where they were going to work by the end of April.

A conspicuous feature of the task of assigning jobs to 1989 college graduates was that it was completely opened up in the 36 colleges directly under the State Education Commission (SEC). That is, it was changed from the former state-assigned directive placement plan to a job assignment plan proposed by these colleges that was based on need data submitted to the SEC for examination and approval. The parties concerned in the SEC pointed out that this job assignment system is still part of a state-planned job assignment and that the opening up refers to changes in certain procedures and methods of making plans. They think that devolving this authority to a lower administrative level will be favorable to both improving macroeconomic regulation and control by the SEC and also bringing the initiative of colleges into full play after their responsibility is increased.

Reform of the job assignment system for college graduates is being carried out in order to change the old placement system under the former planned economy into one that is suited to a planned commodity economy. Thus, its long-range objectives are to do away with guaranteed job assignment at state expense, put into effect a system of dual options in which college graduates are free to choose their jobs and personnel departments are free to hire and fire, and satisfy social needs for qualified personnel through natural regulation by labor market forces. In order to guarantee current personnel needs in remote border areas, key enterprises, difficult trades, and certain fundamental disciplines, the SEC's medium-range reform plan will still list the training of all of these personnel in state plans, provide their training costs, set their training orientation, and assign them jobs according to national needs after they graduate. Although other students will receive fixed tuition fees, they will not be guaranteed job assignment after they graduate. This plan will go into effect in 1993. In the transition period prior to 1993, college graduates will still be assigned jobs chiefly according to state plans. That is, as long as the students who are now in school receive their degrees and submit to job assignment, the state will take the responsibility for finding them jobs. The improvement in 1989's job assignment method by the colleges directly under the SEC is an important step in the transition from planned job assignment to the future dual option employment method.

Qinghua University and Shanghai Jiaotong University were the only two colleges directly under the SEC that adopted planned job assignment from below and carried out planned job advertisement and employment in 1986. What was the actual effect of expanding these programs

to 36 colleges in 1989? The results of a recent examination by the SEC of job assignment plans for graduates by its directly subordinate colleges show that their job assignment plans were basically in line with the SEC principles for improving the method of planned job assignment. Thus, they reflected well the state's present complete set of job assignment policies of overall planning, rational use, ensuring priorities, taking everything into consideration, grassroots orientation, and improving frontline production. This can be seen mainly as follows:

(1) The percentage of graduates assigned to local as opposed to central departments increased 6.9 percent over 1988's base of 68 percent and is continuing to rise.

(2) A slightly more graduates, and a fairer percentage, were assigned jobs in the national key construction sector than in 1988. For instance, the number of graduates assigned to the National Defense Science, Technology, and Industry Commission increased 40 percent over 1988.

(3) Except for appropriate consideration having been given to graduates whose parents volunteered to leave big cities and help border areas in the 1950s and 1960s, all others who came from remote border areas returned home;

(4) Faced with an increased need for grassroots high school teachers, the SEC is taking certain steps in 1989 to deny teachers college graduate salaries if they graduate but do not teach high school, and to give better salaries to a number of liberal arts and science graduates who are being assigned as high school teachers;

(5) The circulation and distribution of graduates with specialties that are in short supply is more rational than in previous years. For instance, Shanghai Jiaotong University is assigning each personnel department not more than one graduate with specialties that are in short supply, such as welding and mechanics, in order to expand its employment coverage.

What has been changed is that the task of assigning jobs to 1989 college graduates is being carried out by all colleges with varying degrees of increased job assignment authority and responsibility. It can be said that this is also a test of the capability of each college to undertake this task.

In order to better publicize job assignment, the SEC, many provinces (municipalities and autonomous regions), and relevant ministries (commissions) have organized talent search meetings on various scales, and many colleges have also gathered extensive data on social needs for graduates through several methods, such as mailings and on-the-spot surveys. On one hand, graduates' right to choose their occupations is being respected conscientiously, and job assignment principles, methods, and plans, lists of students' grades, the consideration given for special difficulties, and job assignment results are all being publicized. On the other

hand, graduates are being patiently taught to judge the times, appraise the situation, face the facts, and take the initiative to adapt to social and economic development needs. They should be aware that conditions are being created to enable graduates to recognize their value through social contacts during vacations. Having achieved striking results in reforming its job assignment system in recent years, Qinghua University has further perfected its graduate assignment methods in 1989, publicized and shared data, and provided a climate of fair competition on equal terms for its graduates. Eighty percent of its 1,200 graduates have now signed agreements with personnel departments as a result of advertisements.

In order to prevent interference by any unhealthy tendencies, many colleges are making great efforts to ensure that the best qualified graduates are assigned the best jobs, arranging the order of graduate assignment according to an evaluation of overall grades, and allowing 5 percent of their top students priority within their college assignment plans to choose their work units in line with the principles of signing up voluntarily—the best being chosen according to recommendation. Moreover, colleges are responsible for refusing to send or recommending replacements for assigned graduates who do not suit the requirements of personnel departments. According to the parties concerned, very few of less qualified 1989 graduates with degrees in fields, such as science and engineering, foreign languages, or teaching, are being assigned to the better jobs. Whereas better qualified graduates with degrees in fields such as literature and history, are being vied for. Several personnel departments wanted to recruit an outstanding graduate from the history department in Nanjing University after he took part in only one talent search meeting. This is worth consideration by college graduates who have too high job expectations, stubbornly complain about poor social environment, or have too narrow an understanding of the consensus on academic employment.

It must be acknowledged that certain difficulties have been encountered in assigning jobs to 1989 college graduates, which shows a lack of control by colleges over their specialized curriculums. Forty-seven of the 51 colleges in the Shanghai area blindly offered management specialties, and colleges in certain other areas offered specialties in fields, such as political history and secretarial work, that were not suited to social needs and caused difficulties in assigning jobs to graduates with these specialties. Thus, the SEC has begun the necessary sorting out and merging of the curriculums of certain colleges and specialties.

In order to ensure full implementation of job assignment plans for 1989 college graduates, many personnel departments are considering their departments' long-range development, correctly dealing with the present temporary difficulties caused by order being restored to the economy and the lack of full coordination between reform of the job assignment and personnel and labor systems, taking a positive approach in recruiting college

graduates, and properly planning their jobs. The Capital Iron and Steel Co set up a special personnel development organization after it recruited over 1,700 college and technical high school graduates in 1988, and is going to recruit 1,000 to 1,500 college graduates with over 200 specialties in 1989. This method of recruiting and building up suitable reserves of large numbers of qualified personnel shows foresight and is praiseworthy.

Every reliable step taken to reform the job assignment system for college graduates depends on the cooperation and joint efforts of every college, personnel department, and graduate. This has been revealed by our experience in assigning jobs to 1989 college graduates.

## AGRICULTURE

### Anhui Rapeseed Procurement

40060726c Hefei ANHUI RIBAO in Chinese  
7 Jul 89 p 1

[Summary] As of 30 June, Anhui Province had put 162,100 tons of rapeseed in storage, fulfilling 54 percent of the task.

### Gansu Feed Industry

40060726c Lanzhou GANSU NONGYE KEJI in Chinese No 6, 25 Jun 89 p 35

[Summary] From 1980 to the end of 1988, Gansu Province invested over 25 million yuan to build 97 feed processing plants in 66 cities, counties and prefectures. The designed annual production capacity is 200,000 tons, and the production capacity of 49 processing plants is 153,900 tons. At present, annual production is 158,200 tons. From May 1981 to November 1988, Gansu produced 552,694 tons of mixed and compound feed.

### Chemical Fertilizer Distribution in Hunan

40060716 Changsha HUNAN RIBAO in Chinese  
6 Jul 89 pp 1-2

[Article by staff reporter Ceng Zhongxue 2582 0112 1331: "Provincial Government Announces Distribution of Major Chemical Fertilizer Resources Managed, Controlled, and Distributed by the Province"]

[Text] On 5 July the provincial government, in line with the demand of the third session of the 7th NPC Standing Committee for more "transparency" in the distribution of chemical fertilizers, held a news conference at which it made public the situation this year in the distribution of chemical fertilizer resources controlled by the province. It asked each level to pass this information along, the prefecture passing it to the county and the county passing it to the township, in order to be beneficial for the masses' supervision.

Zheng Maoqing [6774 5399 3237], vice chairman of the provincial planning commission and deputy head of the provincial coordinating group for agricultural means of production, gave a report, and Vice Governor Zhuo Kangning [0587 1660 1380] made a speech.

The conference made public information on the following issues:

**Composition of the Province's Chemical Fertilizer Resources:** There are two parts in this composition. One part is the major chemical fertilizers that the province manages, controls, and distributes, which means mainly the urea, potash fertilizer, and mixed fertilizer distributed by the state and produced and purchased by the province. The second part is the ammonium carbonate and phosphate fertilizer produced by local chemical fertilizer plants (4.11 million standard tons in the province, among which were 2.7 million tons of ammonium carbonate and 1.41 million tons of phosphate fertilizer). In addition, to make up for insufficiencies, some chemical fertilizer is purchased and brought in from outside China and outside the province.

**Major Chemical Fertilizer Resources Managed, Controlled, and Distributed by the State:** The total amount of major chemical fertilizers in the province this year was 1,522,300 tons (standard tons). The specific composition was that the state distributed 667,300 tons, which included the following: the state's contractual base (including fertilizer used in grain and diversified economy production); 347,300 tons of fertilizer linked to fixed purchases of grain (for every 50 kilograms of trade grain the state supplies 7.5 kilograms of standard fertilizer); about 60,000 tons of fertilizer supplied directly by the central authorities (this fertilizer is sent to the province by various departments of the state, which clearly designate its use); and 59,500 tons of fertilizer linked to fixed purchases of cotton (for every 50 kilograms of ginned cotton the state gives 35 kilograms of fertilizer). The Dongting Nitrogenous Fertilizer Plant gives to the province every year a quota of reserve fertilizer amounting to 365,000 tons. The Dongting Nitrogenous Fertilizer Plant had 80,000 tons of over-production quota purchase fertilizer. The provincially managed Xiangjiang Nitrogenous Fertilizer Plant and the Zijiang Nitrogenous Fertilizer Plant delivered to the province 330,000 tons of purchased agricultural fertilizer. There were 40,000 tons of provincial-level imported fertilizer (the province paid for it with foreign exchange). There was a net increase of 70,000 tons of mixed fertilizer. In the first half of the year, there was an over-plan distribution of 50,000 tons.

**Distribution of and Arrangements for the Provincially Managed Major Chemical Fertilizers:** In line with the principle of turnover balance, 1,522,300 tons were listed in the distribution plan this year. The specific items were: Last year's award sales accounts were settled at 80,000 tons (besides grain, the other crops for which there was preallocated fertilizer linked to award sales for 70 percent of the planned purchase amount were cotton,

tobacco, sugar, edible oil, and tea; the accounts for the remainder will be settled according to the actual situation in the following year). In the year 914,800 tons of award sales fertilizer were preallocated. They included: For grain, 10 kilograms of fertilizer linked to award sales of 50 kilograms of unprocessed food grains. In addition, for the autonomous prefecture and the city of Dayong, there were 717,800 tons of "negotiated turnover balance" supplementary fertilizer. As for edible oil, the province's purchasing plan was 1 million dan; in accordance with the standard rate of 50 kilograms of fertilizer linked to award sales of 50 kilograms, 70 percent was preallocated during the year, that is an arrangement for 35,000 tons. For cotton, the planned purchase amount was 1.7 million dan and, in accordance with the standard rate of 50 kilograms of fertilizer for 50 kilograms of cotton, 70 percent was preallocated, an arrangement for 60,000 tons. For flue-cured tobacco, the planned purchase amount was 3 million dan and, in accordance with the standard rate of 20 kilograms of fertilizer for 50 kilograms of tobacco, 70 percent was preallocated for the year, an arrangement for 420,000 tons. For tea leaves, the planned purchase amount was 1.1 million dan, and 32,500 tons of fertilizer linked to award sales were arranged (including 8,000 tons of production fertilizer). For sugar, in line with the standard rate of 360 kilograms of fertilizer per ton of sugar, 17,500 tons of fertilizer linked to award sales were arranged. There were 116,000 tons of central special-project fertilizer, among which the right to distribute 6,000 tons of fertilizer directly supplied by the central departments was vested in these departments; the higher authorities assign the projects and fixes their number, and the province normally just goes along with the higher authorities. From the contractual base fertilizer given to Hunan by the central authorities, a portion was excised and given to departments directly under the province for distribution. There were 40,000 tons of fertilizer for economic crops, 50,000 tons of fertilizer for special projects directly under the province (including hybrid species, the 13 large farms, agricultural science colleges and institutes, and subsidized fertilizer for immigrants), 20,000 tons of fertilizer for vegetables, 50,000 tons of fertilizer for disaster relief, 20,000 tons of fertilizer for the fodder industry, 10,000 tons of fertilizer for the development of southern Hunan, 20,000 tons of fertilizer for winter-planted crops, 50,000 tons of fertilizer for zero-discount supplementary consumption, and 150,000 tons of fertilizer for general agricultural purposes.

**How the Major Chemical Fertilizers Managed, Controlled, and Distributed by the Province Were Distributed:** Both linked fertilizer and special-project fertilizer, in accord with the use of the fertilizer, were divided by item and stripped and sliced by the provincial planning commission to the departments in charge at the provincial level. These departments in turn made two distributions to departments in cities, prefectures, and counties. The numbers for fertilizer distribution by department were: provincial agricultural and economic affairs commission, 200,000 tons; provincial agricultural department,

105,885 tons; provincial supply and marketing cooperative, 187,513 tons; provincial tobacco company, 68,100 tons; provincial fodder office, 20,000 tons; provincial medicinal materials company, 3,600 tons; provincial poverty relief office, 3,750 tons; provincial food bureau, 772,150 tons; provincial commerce department, 74,710 tons; provincial planning commission, 44,000 tons; provincial foreign economic relations and trade department, 9,859 tons (not including fertilizer supplied directly by the Ministry of Foreign Economic Relations and Trade); and provincial forestry department, 4,330 tons. The remaining odd amounts of fertilizer were separately put into about a dozen accounts, including those of the provincial second light industry department, military units, and reform-through-labor units.

**Prices of Chemical Fertilizers Managed, Controlled, and Distributed by the Province:** This year the major chemical fertilizers managed by the province are divided into two prices: First, there is the par of 550 yuan per ton, which includes fertilizer for award sales of grain, cotton, and vegetables. Second, there is the comprehensive selling price of 700 yuan per ton. Except for the above three linked fertilizers, all the other kinds of fertilizer are, without exception, sold at the comprehensive price of 700 yuan per ton.

**Principal Problems Now in Chemical Fertilizer Production and Distribution:** Supply does not meet demand, and prices are too high. The situation of supply not meeting demand is manifested in two aspects: First, the amount of chemical fertilizer used has increased year by year; second, this year's supply of chemical fertilizer is a little lower than that of last year. This year, of the major chemical fertilizers distributed by the state, only fertilizer linked to grain increased; as for the other fertilizers, some maintained last year's level and some decreased. In the province, production of chemical fertilizers has not met the planned demand. Some small plants were forced to stop production of nitrogenous fertilizer and other plants were forced to operate under capacity, due to the fact that during the four quarters of last year and the first quarter of this year electric power was in extremely tight supply. In the second quarter, the supply of electricity took a turn for the better. Because of social turbulence, obstructions to transportation, and poor coal supply, the province's production of chemical fertilizer from January to June was 200,000 tons lower than in the same period of last year and once again imports were lower. Last year the province imported 230,000 tons of chemical fertilizer. This year, besides the 40,000-ton level maintained by the province, the localities imported only 20,000 tons, 170,000 tons less than last year because there was a shortage of foreign exchange at the par rate and the par rate had been readjusted too high. The price of chemical fertilizer is rising constantly, thereby increasing the agricultural-industrial scissors differential. Because of the rise in the prices of coal and electricity, the cost of ammonium carbonate has been pushed up, and its price could not but rise. To prevent

the price increases from becoming too steep, the provincial government stipulated in explicit terms that factories and enterprises must lower consumption and costs, control selling prices within a given locality at 350 yuan per ton or lower, and control the selling prices of goods purchased outside the province and brought into it at 100 yuan per ton. Even so, the chemical fertilizer price rise index is still extremely prominent. According to data from the provincial statistics bureau, the price index for the period January through May was 134.26 percent, of which ammonium carbonate was 150.92 percent and phosphate fertilizer was 129.18 percent. The peasants think that this problem should be solved.

To solve the current problem of a shortage of chemical fertilizer, the provincial government came up with several ideas. In the two months of July and August, with the supply of coal and electricity ensured, 500,000 tons of nitrogenous fertilizer are to be produced, and they will all be used for the province's agriculture. The departments in charge directly under the province will make arrangements for all the chemical fertilizers that the province manages, controls, and distributes. Commitments that can be honored will be honored in a timely manner in order to catch up with the needs of late rice production. There will be a cutback in reserves and a tight grip on sales. It is demanded that by the end of August the province's entire chemical fertilizer reserves be cut back to about 500,000 tons. Through the aforementioned hard work the province will strive to use 2 million tons of fertilizer for this year's late rice, over 200,000 tons more than the amount used last year.

#### **Shandong City Issues IOU's**

40060736b Beijing NONGMIN RIBAO in Chinese  
31 Jul 89 p 2

[Summary] From March to June 1989, food procurement departments in Laiwu City, Shandong Province issued IOU's worth over 8.1 million yuan to hog farmers.

#### **Shanxi Autumn Grain Area**

40060726e Taiyuan SHANXI NONGMIN in Chinese  
25 Jul 89 p 1

[Summary] The autumn grain area in Shanxi Province may reach 32,500,000 mu, an increase of 780,000 mu over 1988.

#### **Options in Land Reform Outlined**

40060616 Beijing ZHONGGUO NONGCUN JINGJI /CHINESE RURAL ECONOMY/ in Chinese  
No 5, 31 May 89 pp 23-29

[Article by Yang Xun 2799 8113 of the Chinese Academy of Social Science's Agricultural Development Research Institute: "Private Ownership in the State: The Real Options in the Reform of China's Rural Land System—A View on Both the Accomplishments and Trends of the Rural Reform"]

[Text] I. Forty years ago when we watched with our own eyes the noisy celebration of the great victory in land

reform by hundreds of millions of peasants, and 10 years ago when we were devoutly quoting famous lines by Marx concerning protection of the material benefit and political power of peasants, and when we were full of hope in calling to ensure that land was passed down to households, who would have thought that in this ancient peasant state land question would hold so much power. Again and again it presented challenges for our national capacity for theoretical thought and ability to select realistic actions. Again and again it caused the expected failure of our trying to solve rural problems all at once. This forced us to re-examine certain beliefs in economic theories, political views, and philosophies for the long-term. This has been a warning to us that we must abolish the bad habit of being eager for quick success and instant benefit and adopt a realistic attitude towards major social and economic problems. Perhaps land problems are just the most prominent of the significantly troublesome problems. This is because mankind holds a limited position in the natural world that "there is only one earth," and China only has 9.6 million square kilometers of land. Land is not only the basic means by which mankind produces food but is also the fundamental environmental condition that allows mankind to exist and multiply. Land is the foundation that mankind's existence and development are based upon. Among all natural resources it can be said that none are worth more treasuring than land, therefore, the more we get into developing the lower levels of society the more important land seems to become. In China's present stage of facing the crisis of a sharply increasing population and a falling agriculture production, knowledgeable persons have been alarmed and are now paying close attention to the self-preservation of mankind.

A country's natural geography and location, land area, and the composition of the land are already established, but the technological level used in the exploitation of land and the social system of land use are wholly the option of the people. The selection of land exploitation technology and a land use system effects all of society, the longterm interests and basic interests of the whole nation, and reflects the cultural level of the entire nation. Exploration of the land system question must cross over all classes and narrow group interests and should not be limited to the viewpoints of a few schools of thought. This should be taken as our basic starting point in the exploration of the land system question.

II. The special position that land holds and the extreme shortage of land in China makes the land system question have special significance for China's rural reform and rural development. To establish a socialist commodity economic system as the heart of rural reform we must quickly form an independent and stable agriculture management body. This will provide organizational assurance for integrating agriculture management undertakings. Agriculture and rural industrial departments must be rationally divided and coordinate development to ensure steady growth of the national economy. There must be rational flow in the key elements of agricultural

production along with growth and maturing of key market elements. Agriculture products must have commodity circulation and rational distribution must be carried out between individual producers, enterprise, and the state. We must, on the basis of exchange of equal values in industrial and agriculture products, adjust the original industry-agriculture relationship and the urban-rural relationship. We also need to construct a new social economic order based on the principles of a commodity economy and utilize other measures along these lines. Along with all of this we have to rely on the prerequisite of a relevant property-rights system for land. With the backdrop of commodity integration in the overall national economy, the sorting out of property rights, and terminating the chaotic situation of land relationships created by the old system has become the key and crucial point of rural reform and development. Evading this crucial question does not touch upon the basic premise that any subject research using the deduction method is not only nonbeneficial to the overall reform but also cannot realize the theory of thoroughly bringing forth new ideas. The 10-year history of rural reform has proven that under the situation of confused property rights, policy measures for organizing new ideas, concentrating control of land, broad scale management, adjusting industry, shifting the labor force, increasing accumulation, and coordination between urban and rural areas are not only unable to obtain results but also give birth to various economic evil trends and bad influences on society that are difficult to control and cause rural reform to go astray. In the last few years the progressively decreasing benefits from the post rural reform, the conflicts arising from all directions of the agricultural sector, and the lack of vigor in rural reform policy have compelled the people time and time again to call upon the principles of seeking truth from facts and starting everything from China's actual situation. It looks as though in order to solve the special nature of China's problems the special situation of China must be clarified and special methods for China must be adopted. Whatever the system is of bringing in fresh ideas and introducing new schools of thought, we cannot ignore our own history and the national conditions, and we must take eliminating the old system as a premise. If this premise is not in order and the foundation unsteady then it will be difficult to firmly establish any new construction and things that are effective in other countries may be out of place in China. The construction of a land system belongs to the basic components in the very area of China's social economic reform project and will require a lot of effort to construct. If we do not focus on the foundation work, any beautiful and imposing posture will only be harmful and useless.

**III. Concerning the selection of a land system:** In recent years various experts and groups from theoretical circles have proposed many trains of thought, theories, and plans. According to the outline from the September 1988 State Council's Rural Development Research Center hosted "Conference on the Nationwide Rural Land Question," there are three types of land ownership,

state-owned land, privately owned land, and collectively owned land. The conference "after full discussion was predisposed that The comparison of other ways of thinking to further improve the collective ownership system of land so that it conforms better to China's actual situation is the direction to follow in constructing land property rights from now on." Although there are some commendable points for integration of state ownership of land and private ownership, at the present time this lacks the operational capability.

I believe that of these three ways of thinking about land, the most undesirable is China's current system of collective ownership of rural land even though this type of ownership has a history of several decades. Forty years of actual practice in China's rural construction has proven that this type of collective ownership derived from a Stalinist socialism model is not a rational or effective land system and does not suit China's actual situation. If its existence is thought to be rational, its long period of existence is thought to be "suiting China's actual situation" and is taken as China's "direction for constructing land property rights," then this will lead to a huge mistake in China's rural reform.

Looking back at forty years of history in China's countryside, the failure of rural policies prior to reform and the present agricultural crises are rooted in rural cooperatives being formed into communes and other political movements to forcibly establish collective ownership. The successes achieved in the reform of the last 10 years are founded in the limited improvements made in the land system. These have drawn support from the states highest authorities and have been in line with the masses' creative spirit. Starting with the land system, the adoption of a method that was combined from top to bottom opened up a reform of the foundation of the old political and economic system and cultural views, and, with the development of a rural commodity economy, found a truly feasible path to follow. In this great rural transformation, the basic "three levels of ownership, units as the foundation" system of collective ownership (the majority of areas only have collective ownership for land because, except for land, communes do not accumulate any other property) is the primary target of the reform. The success of the peasant household land contract responsibility system is due to it first breaking through the weakest link and most vital part of the communes which is the collective land use system. After this, in order for the reform to follow a rational line we should employ economic, administrative, and legal means to continue the elimination of things left over from communes and the effect that these have, and by advancing the contracting of production to households, further liberating the peasants, giving full play to the role of individuals, enthusiastically fostering the private economy, and as quickly as possible enabling all peasants and rural cadre that possess the right conditions to become independent commodity producers and managers so that a reliable microcosmic basis can be constructed for a rural socialist commodity economy. Following this we can again take the peasants'

microeconomic and independent decisions as the foundation to coordinate with the nonagricultural departments and non agricultural production enterprises with the same reform goals, gradually carry out transformation of the entire national economy and social relationships, and finally realize a stable development for the whole society and a national revitalization.

It is obvious that rural reform is not just an isolated rural question but is the grand project related to the overall situation in the society. This will require the unremitting effort of several generations for a hundred years before success can be attained. Through 10 years of struggle only a trial foundation has been laid and its primary effect has been the shake-up of the old system's foundation. The exploration of developing a new path and the basic framework of the new system is far from being formed.

At the present time China's agriculture is encountering a serious setback. During this key time we must follow the natural developmental trend of "contracting production down to households," be centered on the land system, and further deepen reform, we must not backtrack. It would be a genuine tragedy if, whenever a setback occurs, we think of retreating.

When faced with problems that are related to the overall reform, all reformers must adopt a serious attitude and make a clear assessment of the situation. "Perfecting the collective ownership of land" deviates from the basic goal of rural reform and does not represent the direction of constructing property rights for rural land in China. To comply with the major trends for the land property rights system in rural reform we must have the continued liberation of peasants as our starting point. The free development of individuals is the condition for developing society. The advantages of the socialist system is its ability to give play to the initiative and creativity of individuals in comparison to the old system. Any system that inhibits individual freedom and holds back the individual creative spirit is not a true socialist system. According to this assessment, I believe that under the comprehensive conditions of politics, economics, technology, and culture in today's China, the best choice for a rural land property rights system is state ownership with private management.

#### IV. State ownership of land is primarily based on the following:

A. In terms of the special importance of land and the critical shortage of land resources in China, the basic considerations in selecting a land system for China should be to give utmost encouragement to agriculture managers that fully use land resources so the state can conduct the most effective supervision of land resources.

B. The land system is the foundation of the entire nation's property rights system. Any nation in any stage of selecting a land system must not ignore traditional history. China is a nation that had feudal rule for several thousand years, the annexation of land was the primary

method that feudal bureaucrats and landlords used to accumulate wealth. For this reason, the present selection of a rural land system must pay attention to preventing this type of feudal landlord land annexation. Another aspect is that it should weaken the opposition that the small farm economy has to private ownership ideology.

C. China, as a developing country, should in its selection of a new land system in the 1980s draw upon the positive and negative experiences of countries that have similar conditions and are in a similar developmental stage. It does not have to follow the old practice of private ownership and management of land found in capitalist countries, and need not follow the path of state ownership and management or collective ownership and management of land found in some socialist countries. Under the present conditions China can, according to the principles of separating the two ownership rights and dividing the property rights, combine private management and state ownership of land to give full play to the virtues of the state ownership and private management.

D. Implementing state ownership with private management of land is a profound way of bringing forth new ideas in the economic system. Furthermore, it allows China's rural areas realistic workability and operational capability. It is ironic that the workability and the operational capability to a certain degree, are originated in the more than 20 years of agricultural collectivization and rural communization, especially in the people's commune system of "combining government and society as one." The collapse of the people's commune system has caused agricultural land and property to become actually ownerless, thereby providing beneficial conditions for the state to own land. In the true conditions of rural China, carrying out state ownership of land does not require the state to pay out huge amounts of capital to buy the peasants' land. The state does not have to worry about creating any violent social shockwaves by owning land. In addition, by implementing state ownership with private management of land the state can centralize a portion of capital from peasants through land rentals and taxes for use as agricultural investment. Considering this from the political side, the return of land management to the peasants is definitely popular among the people and beneficial for a stable society. Some people worry that the majority of rural cadre holding the land will become a great hindrance to state ownership of land. This question can indeed not be ignored. However, rural cadre are realists and by paying attention to their reasonable interests and letting everyone know of this righteous cause, no great disturbances will be created by these actions.

In the ten years of the rural household land contract system the structure for China's private management of rural land has already been set up. Along with the extended contract period the peasants' concept of private management of land has been deepening. From what was stated before, the several decades dominated by communes also strengthened the peasants' national concept. Under the conditions of accomplishing state

**ownership and private management we currently need clear public support and real guarantees in state policies and laws.**

**It can be seen from this that the system of state ownership with private management of land may be the lowest costing and most effective option for China's present land system reform plans. I would like to briefly point out that persisting in state ownership of land can avoid annoying ideological disputes.**

**It can be said that state ownership with private management is a reform with no capital but much profit. In this reform the greatest change may be the change in status for a large number of rural cadre which is party and government officials being transformed into entrepreneurs. This transformation is undoubtedly expected by many enlightened cadre. In this transformation the only thing they lose is the wearing of the hat of a cadre, but they gain justifiable participation in the rights and related interests of management. Viewing this from the angle of overall society, its greatest benefit is the large reduction in waste of land resources created by confused and chaotic property rights. We must understand that confused property rights or no property rights at all is a terrible situation in comparison to any form of clear-cut property rights.**

**After the rural property rights system is resolved, the biggest problem for rural areas will be the problem of social guarantees for low-income peasants. This is a problem that exists in all land systems and one that should have additional special research conducted on.**

**E. Private management of land is a traditional method that has a deep and real foundation. Under the people's commune system that forced the combining of administrative rights and economic activity, contracting production down to households unexpectedly held on to life for a long period until it was known as "the great creation of China's peasants" and even replaced the people's commune system. This fact is the most effective in showing the a solid foundation that private management has in China's countryside.**

**Contracting production down to households is in essence a type of land management, it is a partial realization of land management power for peasants that have commune member status. It also does not cause disturbances in the commune system's fundamental land ownership by the production brigades. However, in the conditions of the small farm economy, land use rights and ownership are combined. Therefore from the beginning of contracting production to households the peasants relied on and had a clear understanding of dividing land for individual farming. After rural reform, contracting production to households that was prohibited and suppressed for many years finally achieved legal status and for a time became the most fashionable way, it is generally acknowledged that this is a talisman for reform: "start contracting and immediately become effective." The honest and innocent peasant believes**

**that through collectivization and communization they were deprived of having the land truly returned to them, as a result they excitedly hailed contracting production to households as "the second reform" and "the second liberation." Contracting production to households is indeed a step in the successful completion of rural reform but its final effect will be limited. The "formal name" of contracting production to households is "the responsibility system of linking remuneration to output" and is an ambiguous concept. This is because the endless dispute on contracting production to households has to result in a compromised final product. The backdrop of this has its origin in the actual conditions and tendencies of the obvious contracting production to households, the two parties that are in conflict would both end up accepting the neutral ideas. The result of this compromise causes a mutually exclusive feelings in public. The peasants, according to the facts of the documents concerning contracting of production to households composed by the central committee, believe that the land has been returned to them. Some rural cadres have another interpretation of this; they believe that they have justice on their side in using land management authority. As a result, the selection of a land system that does not adhere to clear-cut theories and solid policies will bounce back and forth on the varied rural social force stimulants. Therefore, whoever holds power has "truth" and can make self-benefiting interpretations of these vague policies. Due to various reasons, some cadres have emerged as a dominant party in this dispute.**

**Along with the overall reform trend of dividing land among agriculture households, one after another the rural political power reestablished in communes, brigades, and production teams will be cancelled out. However, the three levels of political power in communes, the township, village, and team levels will still have a hand in the period the commune is intact. Even more important is that although the reform has been conducted for 10 years there still have not been any clear stipulations concerning the transformation of the collective ownership system made in the constitution or the land supervision law. As a result, some rural cadres have reason to believe that they are still the representatives for collectively-owned land and that they have the power to deal with land under their jurisdiction, can determine the way the townships and villages use the land, have the authority to contract land to peasants, take the land back, and change the way the peasants use it. This has naturally caused indiscriminate occupation and use of land and has intensified problems between peasants and rural cadres. According to data provided by a reporter from the GUANGMING RIBAO, from 1982 to 1986 there were nearly 10 million various cases of violations in land occupation. This is an average of 3,000 incidents per day and involved more than 6.6 million mu of land with at least 2.5 million of this being tillable land. The vast majority of these instances were approved by or had the involvement of rural cadres. Even more serious was that some grassroots cadres from non-land-management departments did not keep a record of their random land**

occupation approvals. All that the land management departments could do was propose ways to handle these matters to the concerned leaders and departments but would quickly run into "layers of protection" for the cadre with the result that these proposals were lost forever. Wanrong County in Shanxi Province has a village called Liuhe, at the end of 1986 before legal measures were instituted for examination and approval, this village committee and resident organizations made plans for a residential base for 131 village households and illegally occupied 79 mu. In August of 1987 under the direction of the village party branch secretary, contracts were made for 30 years and village pig farms were handed over to 8 villagers to be used for residences with over 30,000 yuan being taken in.

F. At present, confused land property rights is the major reason for rural disputes and tense relations in rural labor groups. The reason behind this is simple since communes have died out no one actually owns any land. Therefore, people in the rural areas with power, influence, and money find it easy to use land to obtain gains. In contracting production to households the contracts to rural households are like a safeguard for their self-interests that will inevitably cause resistance and erupt into conflicts. In the same type of instances where both parties justifiably believe that they are the owners, then they must go through arbitration to determine the real owner. It is clear that the use of legal means to determine the legal rights of peasants in land management can truly protect the land management rights of individual peasants and is the primary task of the current land system reform.

G. Private management of land is a starting point for making a realistic and feasible system selection under China's actual conditions. It has been a firm belief during the 10 years of reform in China's countryside and has specific application in the separation of the two rights theory of the rural reform.

Based on the theory of separating the rights of management and ownership and with the system of property rights becoming increasingly complicated in modern society, household management can combine various forms of property rights and ownership systems and does not need to use certain specific systems of property rights as a prerequisite. For example, state ownership with private management, private ownership with private management, public ownership with private management, combined ownership with private management, and so forth. Based on the current social, economic, and technology conditions of rural China, implementing a rural household private management system is very feasible. This includes individual rural household management, combined management by several households and family management.

In modern society's universal separation of ownership and utilization authority we need state legal guarantees in land utilization rights (including management, transfer, and disposal) to ensure a steady growth in

agriculture production and the rational use of land resources. This is because land is property of a special nature, you cannot move it or wantonly destroy it and it cannot be secretly kept or concealed. Only through reasonable use can it increase in value and bring benefits to its owners and managers. The real significance of land ownership is primarily in the actual use and arrangement of the land. The main method of using land is in agricultural management. Any land owner who cannot correctly select agriculture managers and management methods will not attain normal profits.

H. In the implementation of state ownership with private management of land the following needs to be included:

(1) The legal managers of rural lands should be limited to rural residents who participate in agriculture production. The qualifications for these managers should generally be based on the 1982 rural census to stabilize and continue the policies of the rural reform.

(2) The limit of scope for rural land management is agriculture management. In the rural reform, peasants that obtain land management authority must use the land for agriculture crops or livestock and poultry raising. Land put under private peasant management can be rented or transferred and making it conducive for a centralized management, but peasants cannot change agriculture land to nonagriculture uses nor leave the land unused or wasted.

(3) Private management is an economic concept that includes single household management and management by a partnership of two or more households. Private management is the basic method of integrating entrepreneurship and rationally determining the dimensions for China's agriculture. The organizational form used for agriculture enterprises that have a specific scope of operation can be a single rural family farm, a land cooperative consisting of private partners, agriculture companies, agriculture cooperatives, or joint companies. No matter what type of organizational form is used, the members of the enterprise partnership are all individual owners of the enterprise property. The management and supervision of the enterprise must be in accordance with requirements of modern enterprise. The enterprise must establish a clear management system, conduct scientific supervision, and through elections create a board of directors to be in charge of the enterprise's general affairs, and hire a director and farm leaders to be responsible for the daily management work of the enterprise.

(4) Agriculture enterprises should use their independent legal status to appropriately handle their relations with state administrative organs and other enterprises. Speaking on the basis of theory, the true enterprise should not receive any extra-economic intervention and not be submitted to any authoritative representative that can override the enterprise.

(5) In the process of clarifying property rights we should pay attention to giving full play to the positive role of rural cadre, encourage cadre skilled in management to give up politics and engage in agriculture so they can become the new rural entrepreneurs.

(6) The ownership system foundation for private management of land is state ownership. With land ownership reverting back to the state the special organ (State Land Administration Bureau) of the central government will carry out land administration authority according to laws. Local land management organs at all levels are the responsibility of the central government land management organ.

Combining state ownership and private management of land constitutes the system in which the state owns and the private sector manages the land. Under this system the state is the ultimate owner of land. State ownership of land mainly encompasses the following. Peasants cannot control the land at will as if it was their private property, let it lie idle, rent it out, sell it, or present it as a gift to foreigners. They also cannot hinder the state's unified land plan and its reform and control. They also must comply with state qualification requirements for land managers, and so on.

State ownership of land realizes economic gain by land rental and taxes. Peasants who manage state-owned land must comply with the payment of rent and taxes. The state realizes competitive management of land through land rentals and taxes. In China's new stage, the state-owned land system possesses true significance in the socialist ownership system.

The state ownership with private management plan is based on socialist principles and designed, in accordance with the actual situation of China, to carry out this property rights system that has both separate and combined ownership and management rights, to give new life to China's agriculture, and to give impetus to a new state of affairs.

(7) To promote this system of state ownership with private management we must draw support from lawful authority and implement it in a legal way. This will need the unified direction of the central authorities while also giving play to the initiative of local governments and paying attention to the special traits of each local area.

The overall measures for reforming the land system are to research current policies—draft a reform plan—publish laws and regulations and concretely carry them out. The main work of the central government is to conduct investigation and research, draft policies and decrees, and concretely implement these by relying on local governments. Land administration must stress lawful order—supervision according to law.

I. With state ownership and private management as a foundation, establish a new order for the rural social economy.

A good social order is a prerequisite and foundation for a normal operating economy. Following institution of state ownership with private management, rural property rights relations will be clarified. Independent peasants under fair competitive conditions will gradually form various types of beneficial groups, thereby changing the principal structure of China's rural society and methods of social control. Direct administrative control using the system of collective ownership of land will gradually become weak. The mutual restrictions between social elements form a social self-controlling mechanism that will tend to strengthen. The new order of the commodity economy will mainly be realized in the mutual restrictions between various social elements to maintain itself. Under the system of a socialist commodity economy the interest of various beneficiaries are realized in the mutual interchange with other beneficiaries. These beneficiaries naturally form effective restraints among themselves for seeking their own benefits and protecting their own legal interests. In a commodity economy society, the role of control that government plays in social life to a great degree is realized through self-control mechanisms of these beneficiaries. The new order in the commodity economy is established on the basis of organic integration of government regulating mechanisms and self-control mechanisms of social entities.

The property rights system of state ownership with private management of land will essentially make it possible for peasants of China to throw off the long-existing forced control beyond the realm of economy, and will be a necessary prerequisite for establishing various interest group organizations for peasants and the development of new ideas. This has important significance for solving the acute problems currently in China's rural areas, the construction of a new rural social economic order, and for cultural construction in the countryside.

#### J. Research, Testing, and Policymaking of the Land System

In 10 years, rural problems and the research on these problems have achieved remarkable results, established several test bases, and carried out testing on certain rural policies. All of this has played a marked role in integrating science into decisionmaking for rural problems. However, the method of unifying research, testing, and policy appraising in the central authority's research organs is already unsuitable for the new situation in the present social scientific research. The above research is not beneficial for giving play to research units, the initiative of various research personnel, and is not beneficial for having the central policymaking departments listen to different views from all sides on a wide scale and using various forms of valuable research results. This is also not beneficial for giving play to the independent functions of scientific research and testing.

Scientific policy should have as its foundation scientific research and experiment. This type of research and

experiment should be coordinated by different channels, take on many forms, provides solutions and have multiple plans in order that various views and plans can be provided to policymaking departments for reference so that correct policies can be developed through comparison of the differences.

Reform and construction of the land system is an extremely complicated task; there should be high level scientific research and testing in support of this. The

research and testing must be objective and the research organs and research personnel must be independent decision making organs for the party and government. Striving for a true independent spirit is a basic quality that must be possessed by research personnel. The system of having research, testing, and policymaking "three combined into one" makes it easy for research workers to settle into meeting emergencies and leads to short-term actions which is undesirable.

**Society, Private Sector Urged To Run Schools**

*OW1308113389 Beijing GUANGMING RIBAO in Chinese 9 Aug 89 p 1*

[By reporter Zhao Xueli]

[Text] Beijing, 8 Aug (GUANGMING RIBAO)—In order to encourage and promote society's management of standard secondary and primary schools, Beijing Municipality, in line with existing realities, recently issued a "tentative suggestion" on the management of standard secondary and primary schools by society and the private sector. To promote the healthy development of secondary and primary schools that will be managed by society, the "tentative suggestion" laid down temporary provisions governing the aim, orientation, scale, teaching staff, school buildings, sites, and facilities of these schools.

The "tentative suggestion" noted: "Society" refers to state enterprises and institutions with legalis homo status, democratic parties, mass organizations, collective economic organizations, and social and academic organizations. Units having many cadres and workers who live in Beijing in concentrated numbers should be urged to run standard secondary and primary schools. Units composed of 3,000 or more cadres and workers should manage primary schools, while those with 5,000 or more should manage secondary schools. The "tentative suggestion" noted that they can either run these schools entirely on their own or undertake to manage them. Those who run a school entirely on their own must shoulder the cost of the school's site and buildings, teachers and workers' salaries, and its expenses and facilities. They also can undertake to manage a school in which the site and buildings will be provided by the district or county education departments, with the rest of the expenses being borne by the units themselves. Regardless of the methods chosen to manage these schools, all units must implement the educational system, teaching plans and programs, and relevant regulations proclaimed by the State Education Commission and the Municipal Education Bureau, and must report their enrollment plan to the district or county education departments accordingly each year.

The "tentative suggestion" stressed: Standard secondary and primary schools managed by the private sector (ter referred to as private secondary and primary schools) must uphold the four cardinal principles, abide by state laws and decrees, accept the leadership and administration of local governments and education departments, implement all state education policies, and promote the all-round development of moral, intellectual, physical, aesthetic, and labor education in students. To manage secondary and primary schools, the private sector must have a clear aim and a steady source of financing, in addition to a teaching staff, school buildings, and facilities that match the size of the school.

**Guidelines on Reform of Police Station Work**

*40060661a Beijing FAZHII RIBAO in Chinese 19 Jul 89 p 1*

[Article: "On Reforming Well the Work of Urban Public Security Police Stations—the Ministry of Public Security Puts Forth Specific Opinions on Some Problems"]

[Text] To continue to make advances in the reform of the work of urban public security police stations, the Ministry of Public Security recently put forward specific opinions on some problems in the reform that need to be solved.

**1. Resolutely Implement the Work Policy of "Making Supervision of Public Order the Center and Making Supervision of Households and the Population the Foundation"**

The police station's work policy of making supervision of public order the center and supervision of the households and the population the foundation embodies the situation in reform and opening up to the outside world in which public order is protected, and there must be an integration of dynamic supervision and static supervision, with dynamic supervision made primary. Implementing this work policy will play a decisive role in fully displaying the police station's functions and in integrating crackdowns on crime and prevention of crime, with prevention made primary.

The central mission of a police station is to safeguard public order in the area under its jurisdiction and to ensure the safety of one section of the city. All the foundation work, including the supervision of households and the population, should serve to fulfill this central mission. To correctly understand the policy of "making supervision of public order the center and making supervision of the households and the population the foundation," the police station must handle well the relationship between the two. The police station must overcome the tendency to one-sidedly emphasize cracking down on crime and solving cases while slackening off in the supervision of households and the population, or the tendency to solely stress state supervision of the households and the population and thereby cause this supervisory work to be disjointed from the immediate struggle. In line with the police station's work policy, all must give comprehensive play to the role of all public order supervisory functions of the police station, and organically integrate crime watching, cracking down on crime, supervising, and building, as well as improve the police station's functions in overall operations such as safeguarding security, controlling and monitoring, investigating and cracking cases, and reacting rapidly.

**2. In Line With the Principle of Dependency, Supervise Public Order in the Area Under Jurisdiction**

A police station bears direct responsibility for supervising public order in the area under its jurisdiction. In line with the principle of dependency, it should, with regard to the special industries and public complexes in the area

under its jurisdiction, closely coordinate with relevant units, organize the forces of all quarters, and by legal means enhance its supervision of public order. With regard to public order and internal security in neighborhood enterprises, small enterprise units, as well as elementary and middle schools, it should be responsible for inspection and control. The responsibility for handling all public security cases that occur in large and medium-sized enterprise units, organizations, and social organizations, is, in addition to the accredited public security organ, the responsibility of the local police station.

### 3. Put Into Effect the People's Police Joint Duty Responsibility System

In line with its work requirements, a police station can divide the people's police into internal duty people's police and external duty people's police, and put into effect the people's police joint duty system. A police station that understands the work of supervising the households and the population should, based on the geographical position and public order situation in the area under its jurisdiction, divide the area into joint duty zones and police precincts and, with a certain number of external duty people's police, unify the supervision of the population and the public order within the zones. Police stations in public complexes and areas should put the majority of their force into society, where they are to patrol delimited zones and investigate and handle public order problems on the spot. In all places, measures of various forms may be taken in line with local conditions in order to improve the police station's division of people's police work. However, it is inadvisable, in accordance with the matching forms, to imitate the professional division of work in higher level public security organizations; the police station must not become like the organization. We must make the division of work in the police station's duties meet the needs of actual combat at the basic level; this will be beneficial in cultivating people's police who are expert in one thing and good at many things and in improving their skills in handling various kinds of public security problems.

### 4. Supervise the Population

Population supervision includes supervision of the permanent, floating, and transient populations, and it is the basic part of the work of supervising the households and the population.

The police station must, with regard to the population, such as service workers, businessmen, and tenants, coming from outside into the area under its jurisdiction, relying on the units that hire workers, resident committees, and officials of permanent registered residents associations, take measures to issue temporary residence permits, make checks on people in shops who have permanent registered residences, make regular checks of residence status permits, and set up public order protection organizations among the population coming from outside—all in order to strengthen supervision. With regard to personnel whose background is not clear,

whose ancestral homes are not known, and whose names are not their true names, the police station should make checks and discover and crack down on illegalities and crimes among them in a timely manner.

Police stations in busy public places and in places where there is a frequent coming and going of the floating population should, in a focused manner, set up a system of files and checks on the floating population. In particular, police station must link up with the police stations in their permanent registered residences and their units there.

### 5. Give the Police Station the Necessary Working Powers

A. With regard to violations of public security supervisory actions in the area under jurisdiction, punishment is to be meted out on the spot. In particular, violations of public security supervisory actions that occur in bus and railway stations, cinemas and theaters, public places of entertainment, tourist areas, sports grounds, exhibition halls, markets, trade fairgrounds, restaurants, and other busy public places, provided the facts are clear, the case is simple, and the relationship of cause and effect is distinct, the people's police of the police station may mete out punishment on the spot in accordance with the Ministry of Public Security's "Notice on Relevant Questions Concerning On-the-Spot Punishment in Implementing the 'Article on Public Order Supervision and Punishment'" (Document No 6 of 1989). It is inadvisable to transfer to the police station the right to detain, adjudicate, examine, and approve for public security reasons, or to take in and investigate people when by so doing personal their freedom is infringed upon and restricted.

B. The police station must crack and help crack ordinary criminal cases that occur in the area under its jurisdiction or touch upon the area under its jurisdiction, and must help the city bureau or subbureau to crack major cases. In the work of cracking criminal cases, the police station may subpoena and interrogate persons suspected of committing crimes; may make inquiries of witnesses; and may gather evidence in accordance with the provisions of the law. But it must not adopt measures of torture or compulsion. Police stations that have the conditions for it may undertake on-the-spot surveillance in ordinary criminal cases. The city bureau or subbureau is responsible for the cracking of cases that cross over areas, that require investigation of combined cases, or that require the use of technical means.

C. Under the current system of divided-level supervision, all public security supervision certificates for all types of public places and special industries are to be examined and verified and then signed with comments by the police station; with regard to violation of safety regulations, the police station is to sign and issue tickets for rectification and reform; and with regard to violations of public security supervision regulations, the police station, in accordance with the law, is to subpoena

the parties concerned and the responsible person of the unit concerned, and either give them education or public security punishment. Permits for the purchase, transport, storage, and use of explosives may be signed with comments by the police station and reported to the city bureau or subbureau for approval.

#### **6. Strengthen Public Order Supervision by Relying on Many Forms of Mass Prevention and Mass Control**

It is China's tradition and superior point in public security work to integrate special work with the mass line. The police station is on the front line of mobilizing and organizing the masses to safeguard public order. Every cadre and policeman must have a firm mass concept and learn how to be good at mobilizing and organizing the masses to ensure public safety and to struggle against lawbreaking and crime. If the masses are truly organized, there will be a solid foundation for public security work. The capability of the police station to mobilize and organize the masses to safeguard public order must be fully displayed, and the entire watchdog function of public order protection associations, public security joint defense associations, and many other forms of mass prevention and mass control organizations must be displayed, so as to form a multilevel, tight public security watchdog network and step by step set up and perfect society's watchdog mechanisms.

#### **7. Put Into Effect the Police Station Chief Responsibility System and Improve the Political and Professional Quality of the People's Police**

The police station is the basic-level organization of the public security organizations, and it undertakes many-sided public security professional work and mass work. Therefore, in accordance with the qualifications of having both ability and political integrity, being in the prime of life, and having an enterprising spirit, the police station chief must be competent and strong, and he must take charge of all the police station's professional work and ideological and political work. The higher level public security organization must organize at regular intervals assessments and appraisals through discussion of police station chiefs, and must constantly raise their ideological and professional levels and improve their capability for leadership and organization.

Gradually improving the political and professional quality of the people's police is a decisive factor in the constant deepening of the reform of police station work. Through various forms of education and training we must make the people's police in police stations strengthen their concept of the mass line and improve their capability for mass work; strengthen the concept of the legal system and improve their capacity for doing things according to law; and strengthen the concept of policy and discipline, establish the habits of professional ethics, and resolutely overcome the mistaken tendency to use power recklessly.

#### **8. Make Public the Rules and Regulations for Handling Affairs and Accept the Masses' Supervision**

The police station should make public to the masses all the regulations, procedures, deadlines, and results of its handling of affairs that may be made public. By setting up police-people contact boxes, police chief reception days, public disclosure of the names of cadres and policemen and their office telephone numbers, and other means, the police station can accept the supervision of the masses. Integrating with the local situation, at each place the police station must announce to the masses its policy on permanent registered residences that have "changed from peasant to nonpeasant," and have the masses appraise through democratic discussion such residences. The city public security bureau or subbureau is to examine and approve this change of status and then post lists of the results of its examination and approval, thereby continuing the reform of the system of examining and approving permanent registered residences.

#### **9. Enhance the Consciousness of Reform and Strengthen the Leadership Over Reform of Police Station Work**

The principal leading comrades of the public security organizations at all levels must personally get a grip on police station work, and must emancipate their minds, replace concepts, go deeply into reality, investigate and study, and conscientiously solve specific problems encountered in reform.

Integrating with the reform of the work, when the higher level public security organization increases the missions of and transfers powers to the police station, it must take into consideration the police station's ability to take them on, and the missions and powers must be beneficial to the strengthening of the police station's vitality and also be in accord with the law and with rules and regulations. In all cases in which powers exercised by the public security organizations at the county level and above, in accordance with the law and with rules and regulations, need to be transferred to the police station, instructions should be requested and a report filed. Public security organizations in all places must integrate with reform, streamline the higher level, replenish the lower level, and increase the force of the police station; they also must, from the aspect of work plans and work systems, conscientiously solve the current problem of excessively heavy burdens being put on police stations. Public security organizations at all levels must vigorously strive to get the support of the local party committee and government; help the police station improve its housing, means of transportation, communications equipment, and other material conditions; and conscientiously dispel worries and resolve difficulties for the basic level.

**History of Lawyers Since Founding of PRC**  
*40030661b FAZHI RIBAO in Chinese 20 Jul 89 p 3*

[Article by Chen Haisheng 7115 3189 3932: "Historical Evolution of Lawyer System in New China"]

[Text] In 1979 the profession of lawyer, which had existed for less than 2 years and which had gone through a "geological fault" for 20 years, took out a new lease on life.

On 17 February 1979 RENMIN RIBAO carried an article entitled "Conscientiously Ensure the Accused's Right to a Defense," which stressed the importance of a lawyer's defense in criminal cases. Thus, lawyers were again taken seriously by society.

The first paragraph of an article entitled "A Little Discussion of Lawyers and the Right to a Defense" in the 20 March JIEFANG RIBAO said: "At present young people more than 20 years old are almost totally unfamiliar with lawyers. Even if they know a lawyer locally, when the lawyer defends an accused in court, some of these young people are astonished: 'Defending a person on trial—that's outrageous.'" When, after 20 years, this term "lawyer" reappeared, most people were either apathetic or basically ignorant of what it was.

In April the Law Committee of the NPC Standing Committee set up a special group to draft regulations on lawyers.

In the second half of the year, after the Ministry of Justice was established, it began to make arrangements for lawyer organizations to be set up by judicial departments and bureaus in various places. This year the Judicial Bureau of Beijing Municipality first of all prepared to restore the Legal Consultation Office. The young Beijing lawyers of the fifties, after reaching middle age, in succession asked to return to their posts as lawyers. Among them there were no lack of those who, in those years of the past, because they defended accused persons, won the rightist "laurel" of "diehard."

In 1980 Comrade Deng Xiaoping clearly stated: "The ranks of lawyers must be expanded; it won't do not to have this legal system." In that year lawyer organizations sprang up everywhere like bamboo shoots after a spring rain. On 20 August of the same year, the 15th session of the Standing Committee of the 5th National People's Congress passed and promulgated provisional regulations on lawyers and, in the form of legislation, determined the socialist nature of China's lawyers and the position of law.

After New Year's Day, when the regulations formally went into effect, there was a big growth in the lawyer ranks. By yearend, in China there were 2,350 law offices and more than 10,000 lawyers.

In 1983 the Ministry of Justice provided guidance for the initiating of lawyer reform experimental points, and lawyer organizations put into practice the responsibility

contract system. After one year the reform of the lawyer system began nationwide. In July 1986 a national lawyers congress and a national lawyers work conference were held in succession in Beijing. Qiao Shi [0829 4258] and other state leaders attended the opening ceremony for the two meetings. Comrade Qiao Shi made a speech entitled "Strive To Establish a Socialist Lawyer System With Distinctive Chinese Features." At this time the All-China Lawyers Association was established.

In August 1987 the Third Council of the Asian and Pacific Region Lawyers Association was held in China. At the end of 1986 China began to put into practice the lawyer qualification assessment system, and at the end of 1987 China began to put into practice the specialized lawyer post appointment system. China's lawyer system is gradually being perfected.

In the 10 years since restoration of the lawyer system, from zero there has been a big development in the lawyer ranks. By the end of 1988, in China there were more than 3,400 law offices and more than 31,000 lawyers. Major successes have been obtained in the work of lawyers: in the one year of 1988 alone, there were lawyers acting as year-round legal advisers for more than 30,000 government organizations and enterprise units, lawyers had acted for clients in more than 260,000 civil cases and in more than 70,000 cases that were settled out of court; lawyers conducted defense in more than 170,000 criminal cases, handled more than 8,400 cases that touched on foreign legal affairs, and answered questions on more than 2.41 million cases of legal consultation.

According to information in FAZHI RIBAO and other newspapers and periodicals, lawyer work is developing toward a higher level. In 1987 in Guangdong Province, the governments of a dozen cities and counties, including Guangzhou City, engaged lawyers as year-round legal advisers. At the 7th NPC [National People's Congress], four lawyers were, for the first time, elected as NPC representatives, thereby participating in government and political affairs in the state organ of supreme power, which had never happened since the founding of the PRC. To handle legal affairs on the mainland, Taiwan compatriots have in succession engaged mainland lawyers. In the Sizmen Self-Supporting Cooperative Law Office alone in the first half of 1988, a little over 400 Taiwan compatriots engaged year-round legal advisers and had the office handle other legal matters.

At a time when China's legal profession is making big strides forward, it is felt that there parts of the existing lawyer system that do not suit the present situation and requirements, and that there is an urgent need for reform: The existing system is not advantageous for the display of the lawyer's initiative and it cannot satisfy society's demands; the lawyer establishment is subject to state control and cannot grow swiftly on a large scale.

At the beginning of 1988, all lawyer associations in China envisaged the coexistence of many kinds of systems. At the same time, China's first private law office

was established in Shenzhen; not long afterward Beijing and Tianjin established the Jingwei and Dongfang cooperative law offices. By the end of 1988 there were 48 cooperative law offices in China.

Over the past 10 years, although the legal profession has advanced with giant strides, it has not always been smooth sailing. In the regular exercise of their profession lawyers have suffered discrimination, obstruction, and

interference. Up to now there still exists inside and outside courts the idea of "what is a lawyer's position when he defends an accused person?"

Over the past 10 years, lawyer circles believe there have been "the sweet, the sour, the hot, and the bitter." Lawyers look forward to an early birth of the "Law on Lawyers."

### New PLA Mechanized Minelaying System

40050584a Beijing BINGQI ZHISHI [ORDNANCE KNOWLEDGE] in Chinese No 3, 15 May 89 pp 2-3

[Article by Jiang Tongxin 3068 0681 2450: "Awe-Inspiring Mechanical Minelaying; an Extensive Earth Network Makes Movement Difficult"]

[Text] Rapid mechanized minelaying is extremely important for antitank warfare. Antitank minefields can not only slow the rate of enemy tank attacks and create conditions for directing fire and attacking enemy tanks, but the land mines themselves can blow up tanks. In 1976 the American Army carried out tests on the tactical effects of minefields on antitank weapons systems, and the results showed that when minefields were combined with direct-fire weapons, the tank-kill ratio can be as high as 73 percent. The important role for antitank minefield tactics in warfare has also been historically proved in recent warfare. During World War II, the Soviet Union used 200 million land mines to blow up nearly 10,000 tanks and armored vehicles. During the Korean and Vietnam conflicts, approximately 70 percent of American tanks and vehicles were blown up by land mines. The characteristics of tank battles in modern warfare are their high speed, great depth, and successive attacks. Obviously, if large-surface, large-quantity, rapid mechanized minelaying is at stake, sole use of manual minelaying methods would make victory difficult. With advances in modern science and technology, many advanced minelaying means have appeared one after the other, for example mechanized minelaying and artillery, rocket, and aircraft minelaying, as well as scatter-drop minelaying. Each of these minelaying techniques has its characteristics, each can display its prowess, and each can constitute a grand prospect for minelaying that is a vectored cross-section of far, medium, and close distances.

As a near-distance minelaying method, mechanized minelaying has the following characteristics: The minelaying rate is 40-50 times faster than manual laying; minefield position and mine-to-mine distance, row distance, and mine density can all be accurately controlled; the costs of equipment and usage are low; and the equipment is long-lived. As foreign armies have developed conventional mines, they have also correspondingly developed and equipped themselves with mechanical minelaying vehicles. In accordance with the particular situation in China, for a rather long time now mechanized minelaying has been one of the principal means of laying mines for China's Army.

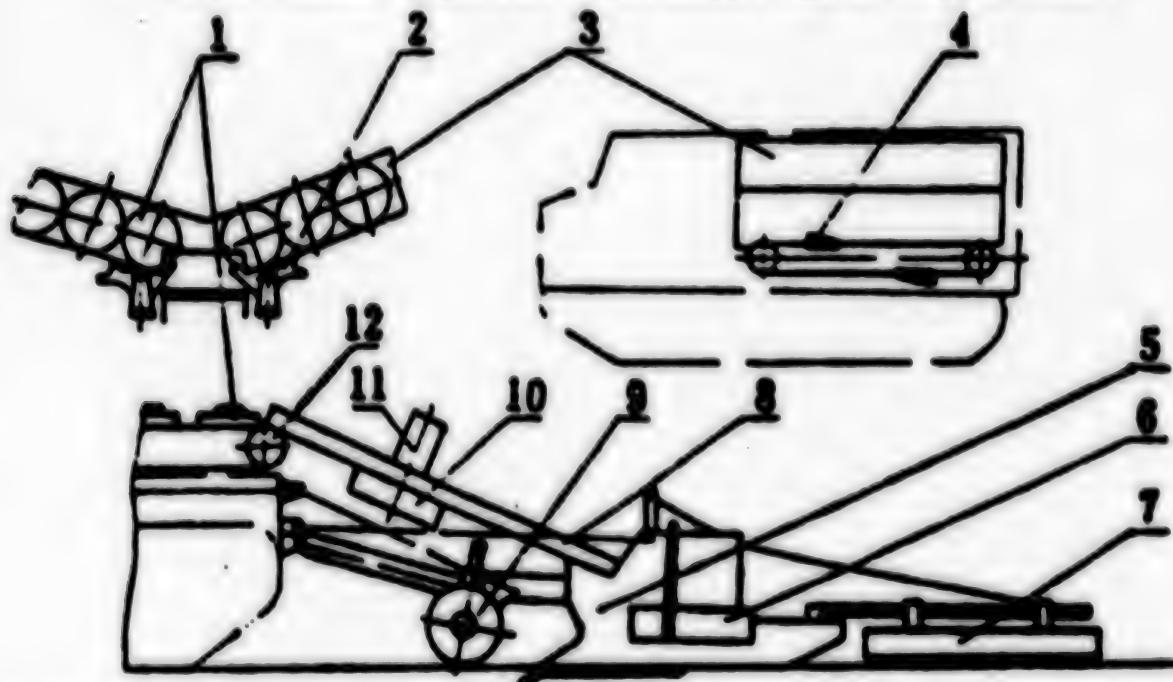
The model GBL120 mechanical minelayer in the Chinese arsenal is a first-generation product, and it may be used for laying GLD210, GLD211, GLD212, and GLD213 antitank mines. As needed, they can be buried in soil of grades II and III hardness and in sod (emplacement mines), or can be placed directly on the ground (surface mines). This is a towed vehicle composed of two parts: One is the CA-30 Jiefang brand vehicle used to tow

it and on which is a mine storage rack holding 250 land mines; and the other part is the minelaying equipment, which is made up of a frame, a mine-sliding channel, a plowshare, a push tool, a soil restorer, and a mine distance control mechanism. The frame is the basis of the entire tow vehicle; the mine-sliding channel is a mine-passage track situated between the tow vehicle and the plowshare; the plowshare is used to open a mine channel; the push tool and soil restorer are used to hide the mines and to camouflage them; and the mine distance control mechanism allows the mines to be set at a regular distance of 3 or 4 meters. In addition to the driver, five operations personnel run the minelaying vehicle, which takes about 15-25 minutes to lay its truckload of mines. The structure of this vehicle is simple, it is easy to operate, cheap to manufacture, and lays mines quickly, replacing the repetitive physical labor of manually laying mines. But it is not highly mechanized, it has little cross-country capability, and it cannot operate in many places that tanks can travel, so its tactical applications are limited.

The tracked automatic minelayer that has been recently developed greatly improves the tactical performance of mechanical minelaying equipment. This is a new piece of minelaying equipment, designed and manufactured in China, that can generally dig up soil in grades IV and below and lay the GLD214 and GLD215 antitank mines, and that completely automates the entire process from storing mines to planting (or setting) them. The GJT210 military bulldozer is used for the chassis of this vehicle, and its maneuverability and cross-country capabilities approach those of a tank; the driver's compartment and truck bed are armor-plated; the vehicle is fitted with radio, night-vision instruments, periscope, and dual-purpose machine gun, which allows the minelayer to operate at night and possess a distinct capacity for self-preservation. The minelayer is operated by two persons: One is the driver, and the other is the operator. Before they begin, the operator adjusts the height of the depth-limiting wheel and the mine gap notch according to orders, and when they are working, the operator only has to connect the hydraulic clutch and the magnetic clutch, at which time the entire minelaying process will be conducted automatically. If four minelaying vehicles are operating simultaneously, an antitank minefield 1 km in breadth, 60-80 meters deep (four rows of land mines), and with a density of 1 (i.e., the ratio of the number of mines in a minefield over transverse length in meters) can be laid in 15-20 minutes.

So, how does this tracked automatic minelaying vehicle achieve its automation? We know that if we use mechanical means in place of manual minelaying, the mechanical structure must automatically accomplish the necessary processes in the minelaying procedure, and also the work should be safe and reliable. The primary operations in the minelaying procedure are as follows: Storage, delivery, and release of the mines; removal of the land mine safety, putting it in combat status; and trenching to bury the mines, camouflaging afterward. All mechanisms

Figure 3: Structural Diagram of the Tracked Automatic Minelayer's Minelaying System



1) Mines 2) Mine-Control Valve 3) Mine-Storage Equipment 4) Mine-Control Lever 5) Plowshare 6) Soil Press 7) Soil-Covering Device 8) Mine-Sliding Channel 9) Depth-Limiting Wheel 10) Mine-Gap Controller 11) Convertor 12) Conveyor Belt Wheel

in the minelaying system are installed on the tractor chassis, and the power of the tractor drives the prescribed activity of each mechanism in order. While the minelaying vehicle is moving, it is driving the operation of each mechanism, which are carrying out the minelaying process. In addition to the chassis, the minelayer minelaying operation system is primarily composed of the mine-storing, mine-control, soil-preparation, and minelaying equipment, as well as the motor and generating systems. The mine-storage equipment is made up of 15 diamond-shaped baffles joined by four large worm shafts, which yields 14 rows of mine-storage channels in which may be stored 252 mines. There are mine-delivery apertures on the left and right sides of the bottom of the mine-storage channels. In the pancake-shaped mine storage racks, the mine columns are at a horizontal 17-degree slant, and when the mine-control valve is operating, the mine rolls along the mine-storage rack of its own weight and drops onto the conveyor belt, the conveyor belt then delivers the mine to the mine-sliding channel at the rear of the vehicle. The land mine slides along the mine-sliding channel, the interval between mine deposition being controlled by the mine gap controller, and at the same time the convertor removes the safety from the mine fuse and places the mine in combat status. The minelaying equipment does such operations as trenching, mine placement, and coverup and camouflage; its primary components are the plowshare, depth-limiting wheel, soil-covering device, and soil-pressing

device. In the trenching and mine-burying process, when a difficult obstacle, such as packed soil or rocks, is encountered, the plowshare can automatically lift up and go back to its trenching position when the obstacle has been passed. When burying mines in hard soil of grade III or higher, or in soil that contains bands of gravel or fragmented rock, the scarifier at the front of the minelayer will loosen the soil before trenching and laying the mines. The depth-limiting wheel can be used to limit the depth of the plowshare trenching, and, when necessary to place mines, by adjusting the length of the depth-limiting wheel shaft the plowshare will lift up off the ground.

The primary specifications for the Chinese-made automatic minelaying vehicle:

Mine storage capacity	252
Mine types	GLD214, GLD215
Mine gaps	3, 4, 5 meters
Operating speed	252 mines/15-20 minutes
Hardness of operating soil conditions	Grade IV and below
Highest traveling speed	45 kilometers/hour
Combat weight	25 tons
Gradient climbing capability	25 degrees
External dimensions	length X breadth X height 9.6 X 3.04 X 3.45 meters

The layout of the entire tracked automatic minelaying vehicle is rational, the minelaying system structure is simple, it works reliably, is easy to operate, lays mines quickly, and is quite maneuverable. It has a definite capacity for self-preservation, can operate at night, and can, therefore, quickly accomplish the mission of motorized laying of antitank mines. It can also preliminarily lay a field of antitank mines, saving a great deal of human effort and time.

At present, the majority of foreign military mechanized minelaying equipment is still of the towed minelayer type; the only countries with automatic minelaying vehicles are the Soviet Union, France, and the United States. The current Soviet TM3 armored automatic minelaying vehicle is quite similar to our Chinese tracked automatic minelayer. Its chassis vehicle is the SA-4 air-to-ground missile launcher, it operates at a maximum speed of 50 kph [kilometers per hour], holds 208 mines, runs at 2-3

kph while laying mines, and is equipped with night-vision, communications equipment, and a 7.62-mm machine gun. The Matemmin automatic minelayer of the French Army is on a 4X4 vehicle, has no armor, carries 448 mines, operates at 400 mines per hour, and lays them at random 2.5- to 10-meter gaps. In comparison with other armies, the primary performance of China's automatic minelayer has reached the advanced level of contemporary foreign weapons, and exceeds them in some respects. In the aspects of mine storage and trenching and burying capacities, China's is better than that of the Soviet Union; as far as minelaying speed and self-protection are concerned, that of China is superior to the French minelayer. Because of limitations of the basic vehicle, the highest operating speed of China's automatic minelayer vehicle is rather low, but as the technology and equipment develop, China's mechanized minelaying equipment will gain new ground.

**EAST REGION****Profile of Zhejiang CPC Secretary Li Zemin**

40050482 Hong Kong KUANG CHIAO CHING [WIDE ANGLE] in Chinese No 198, 16 Mar 89 pp 76-78

[Article by Chen Jiafeng 7115 0502 2800: "Li Zemin 2621 3419 3046, Secretary of the Zhejiang Provincial CPC Committee"]

[Text] The number-one man in Zhejiang, the important province in China's southeast region, was replaced recently. The new secretary of the Zhejiang Provincial CPC Committee, Li Zemin, hailed from Liaoning. He replaced the former secretary, Xue Ju [5641 7467].

**Born in Sichuan, Grew Up in Liaoning**

Li Zemin was born in Sichuan in 1934. In 1949, he returned to work in Sichuan with the PLA. In the mid-1950's, he enrolled in the Chinese People's University in Beijing. In the late 1950's, after graduation, he remained in the university as a teacher for several years. In 1964, he was transferred to teach at the Shenyang Agricultural College. Later, he became director of the propaganda department of the Shenyang Agricultural College CPC Committee.

In 1982, Li Zemin was transferred to the Shenyang Municipal CPC Committee as director of its propaganda department. In 1984, he became deputy secretary of the municipal party committee. As deputy secretary, he assisted two successive secretaries, first Li Tao [2621 3447], the old secretary who retired in March 1985, and then Li Changchun [2621 7022 2504]. Toward the end of 1985, Li Zemin was transferred to the Liaoning Provincial CPC Committee as its deputy secretary. In 1986, when Li Changchun was promoted to acting governor of Liaoning Province, Li Zemin became, concurrently, secretary of the Shenyang Municipal CPC Committee.

**Replacing Xue Ju as Secretary of Zhejiang Provincial CPC Committee**

At the 13th CPC National Congress, Li Zemin was elected a member of the CPC Central Committee.

At the end of 1988, Li Zemin was transferred to Zhejiang. At the Eighth Zhejiang Provincial CPC Congress held at the end of 1988, Li Zemin was elected secretary of the Zhejiang Provincial CPC Committee, replacing Xue Ju (former secretary of the provincial party committee).

Li Zemin's wife worked together with him in the Shenyang Agricultural College (now the Shenyang Agricultural University). She now works in the Shenyang Industrial College. They have two daughters. The elder daughter is working toward her master's degree at the Northeast College of Finance and Economics (in Dalian). The younger daughter is a student at the Liaoning University Department of Journalism.

**Li Zemin's Major Achievements**

In Liaoning, Li Zemin was one of the achievers among the young and middle-aged officials in the province. In the past few years, he has done a lot of important work for the reform and opening of Shenyang City. Shenyang City is located in the southern part of the great Songliao plain, with the two fine harbors of Dalian and Yingkou in the front, the Dadong harbor of Dandong to the east, the Huludao and Bijashan harbors of Jinzhou to the west, and the vast area of Jilin, Heilongjiang, and the four eastern leagues of Inner Mongolia in the back. Shenyang ranks first in China in the density of its railway network. It is the hub of transportation in the northeast of the Chinese mainland. Within 100 km around Shenyang are such important cities as the steel capital of Anshan, the chemical fiber city of Liaoyang, the energy city of Fushun, the coal and iron city of Benxi, and the grain and coal valley of Tieling. In 1984, Shenyang was designated by the State Council as a city with province-level economic decision making authority. In 1988, it was designated by the state as an open coastal city. Without doubt, Shenyang's development has a great impact on the northeast as a whole. Li Zemin, as secretary of the Shenyang Municipal CPC Committee, shouldered rather heavy burdens, and his achievements were also considerable.

Li Zemin has achieved outstanding results in urban reform.

In the past few years, Li Zemin, together with other responsible persons of Shenyang City, has always made invigorating the enterprises the focus of the structural reform of the urban economy. Even before 1985, he started helping Li Changchun draw up an Enterprise Bankruptcy Law and carry out a series of experiments on enterprise reform. After 1986, Li Zemin and other municipal leaders implemented the Enterprise Bankruptcy Law and made fairly important contributions in the following areas:

1. Actively promoting the share system for enterprises. The share system was vigorously promoted first in the collective enterprises, mountain enterprises, and town and township enterprises. At the same time, shares of selected large and medium-sized state enterprises were offered to the public on an experimental basis. So far, 1,068 enterprises in Shenyang City have adopted the share system. Shenyang is now designated one of China's experimental cities for the share system. In the meantime, the stock market in Shenyang is being perfected in preparation for trade in enterprise shares. In this field, Shenyang is now leading the whole country.

2. Promoting the contract management responsibility system and deepening the internal reform of enterprises. According to statistics for the first half of 1988, more than 3,100 enterprises in Shenyang have adopted various forms of contract responsibility system, and more than 2,200 enterprises have adopted the lease system. By early

1989, city-owned enterprises have by and large adopted the contract responsibility system.

3. Principles establishment of enterprise groups and optimum combination of productive factors. In the first half of 1988, there were a total of 32 enterprise groups in Shenyang, including five that had adopted the share system.

4. Intensifying various supporting reforms and creating conditions for revitalization of enterprises. On the one hand, efforts were made to establish a market system, including mainly an enterprise property market, a contracting and leasing market, a stock market, and a service market. On the other hand, efforts were made to strengthen macroeconomic control in order to alleviate the contradiction between total supply and total demand of society, check inflation, and stabilize the economy.

Work is continuing to handle the bankruptcy and auction of enterprises that are suffering serious losses.

#### **Implementing an Open Economic Policy in Line With Local Conditions**

Li Zemin also did a lot of work in implementing an open economic policy. In view of the fact that Shenyang is an old industrial base with great need to reform its enterprises, Li Zemin paid special attention to the reform of the entire Tiesi heavy industry zone. In 1988, after assuming leadership in Shenyang, he initiated experiments on "special zones," "special plants," and "special townships" in line with the open policy. He designated Dongling District as a special experimental zone and approved establishment of 112 special plants (or special stores), eight special institutes, and six special townships. At the same time, attention was also paid to development of the Nanhу Science and Technology Park Zone and the Zhangshi Development Zone (now called an "export processing zone"). All this has proven to have invigorated the economy and accelerated the opening to the outside world. According to statistics, Shenyang's foreign-exchange earnings through exports rose to a new high in 1988. The amount of foreign funds used in 1988 equaled the total used in all the previous years since Shenyang opened up to the outside world. Progress was also made in developing the three kinds of partially or wholly foreign-owned enterprises in Shenyang in 1988.

Projects now under construction in Shenyang with state, provincial, and municipal investments include the Taoxian Airport, the Shenyang-Dalian Highway, and the Xinhei Passenger Terminal (railway). Their completion will further Shenyang's opening to the outside world. Li Zemin has been transferred to the important southeast province of Zhejiang on a new assignment, as Shenyang moves into a new period of rapid development.

#### **A Great Goal**

While in Shenyang, Li Zemin also paid attention to the import of advanced scientific and technological software and key technological equipment from abroad and

emphasized the digestion, assimilation, adaptation, and renovation of imported technology and equipment. The goal is to build Shenyang step by step through several years of hard work into an important machinery and electrical appliances export base for China, a center for the digestion, assimilation, and substitution of imported technology, serving the Liaodong Peninsula, the entire province, and the entire country; a foreign economic and trade information center for the northeast region; a money and foreign-exchange regulation and loan center; and a development center for new technologies, new products, and new industries; so that Shenyang will become an open, diverse, modern economic center and a highly industrialized international city of the Asian-Pacific region, with a rational product and industrial structure, a prospering economy, advanced science and technology, and widespread influence. This goal is now handed over to Li Zemin's successor for completion.

#### **An Honest Man Who Values Honesty**

Li Zemin attaches great importance to honesty in the party and government. In 1988, at the Eighth Session of the Seventh Shenyang Municipal CPC Committee convened and presided over by him, he laid down 10 rules for maintaining honesty in party and government organizations. He called on members of the Standing Committee of the municipal party committee to take the lead in seriously enforcing the rules, make strict demands on their own children, family members, and close aides, and accept supervision by party members, cadres, and the masses of the entire city. With regard to dishonesty in municipal party and government organizations, he encouraged people to expose the offenders or report them to the provincial party committee or the Central Committee.

Li Zemin is honest, hard-working, and thoroughgoing. He enjoyed high prestige among the municipal organizations and the people of Shenyang. However, conditions are very different between Zhejiang and Liaoning. There are many Overseas Chinese in Zhejiang, and a major problem is how to strengthen ties to the "Ningbo group." To the question of whether he will be able to achieve outstanding results in such fields as industry, agriculture, education, honesty in party and government organizations, transport, and maintaining ties to Taiwan and Overseas Chinese after his arrival in Zhejiang, it is believed that there will soon be answers.

#### **NORTHWEST REGION**

##### **Analysis of Xinjiang's Population Increase Since 1949**

40050583 Urumqi *XINJIANG SHEHUI KEXUE /SOCIAL SCIENCES IN XINJIANG/* in Chinese  
No. 3, 15 Jun 89 pp 123-124

[Article by Li Yuanqing 2621 0337 1987 of the Population Research Institute of Xinjiang University; responsible editor, Hu Zuyuan 5170 4371 3293: "Elementary Discussion of the Mechanical Growth in Xinjiang's Population"]

[Text] Among all the provinces, municipalities, and autonomous regions on the Chinese mainland, the speed

of the mechanical growth of the population in Xinjiang is second only to that of Heilongjiang Province. Based on estimates from statistical data, from 1949 to 1984 there was a net increase of 3.05 million in Xinjiang's population, about a fourth of its total population. The process by which Xinjiang's population increased may be roughly divided into five stages: In the first stage, 1949-1953, the principal form of Xinjiang's population influx was when the Chinese People's Liberation Army went into Xinjiang and accepted about 80,000 Kuomintang insurrectionist troops there. Afterward, these troops were transferred to civilian employment or joined the troops that were opening up wasteland for agriculture. In the second stage, 1954-1957, the establishment of the Xinjiang Production and Construction Corps led to the formation of a new upsurge in the population influx. The corps' population increased swiftly from the original 175,000 to more than 2 million. The third stage, 1957-1961, was the second upsurge in Xinjiang's population influx, and during these 5 years there was a net influx of 1.224 million persons; in particular, in 1959 there was a net influx of 511,000 persons. The third stage, 1962, was the only year before the eighties in which the outflux of Xinjiang's population was greater than its influx, and there was a net outflow of nearly 200,000 persons. The period from 1963 to 1976 was another stage in which there was a net influx in Xinjiang's population; in particular, the period from 1963 to 1967 was the third great upsurge in the influx of Xinjiang's population. From 1962 to 1966 Shanghai enlisted a total of 150,000 intellectual youths to go to Xinjiang. A large number of intellectual youths from Wuhan and Tianjin also went to Xinjiang. In addition, in the later fifties in Xinjiang the greater part of the immigrants were male workers, and the phenomenon of a loss in the proportion of a causal nature was serious. In 1962 the Lanzhou-Xinjiang Railway reached Urumqi City in Xinjiang, and this promoted the entry into Xinjiang of family members to join the immigrants. In the fifth stage, which is that since 1977, is one in which the total outflow of population is greater than the total influx. Historically Xinjiang has been a region in which there has been a gradual influx of population, but not in great numbers. In the several decades after liberation, the great number of immigrants caused a sharp increase in Xinjiang's population. The changes brought by the influence of this immigration were extremely marked. First of all, the great number of immigrants promoted Xinjiang's political stability and economic prosperity. After liberation, following the movement into Xinjiang by a large number of cadres, military men transferred to civilian employment, intellectual youths, scientists and technicians, the quality of Xinjiang's managerial personnel was improved and, in addition, with the correct nationality policy, Xinjiang's political situation was, from first to last, comparatively stable. The development of Xinjiang's industry and agriculture, its progress in science and technology, as well as the improvement in the educational level are all closely related to immigration. As of now, Xinjiang's scientific research, teaching, and

technical backbone elements are still mainly the university students who came to Xinjiang in the fifties and sixties.

The immigrants still have the following effects on Xinjiang's population structure and distribution. First, the immigrants have greatly changed the nationality composition of Xinjiang's population. Because the immigrants came mainly from the provinces in the interior, where the Han nationality is primary, the proportion of the Han nationality in the population rose from 7 percent in 1953 to 37 percent in 1966. After the immigration rate slowed down, and, in addition, the Han nationality population began to practice planned parenthood, naturally the growth rate was fairly slow, so that the proportion of the Han population in Xinjiang was maintained at about 40 percent. Second, the Xinjiang population influx affected the sex ratio. In 1957 in Xinjiang there were 114.5 males to 100 females; in 1959 this figure reached 123.2 and in 1963 it went back to 114.0. In the same periods the average figures for the nation as a whole were 107.3, 107.4, and 105.5. The difference between Xinjiang and the nation as a whole was caused mainly by the fact that the majority of the large number of immigrants in Xinjiang were males. Third, the migration of the Xinjiang population has changed the regional distribution of the Xinjiang population. Historically, southern Xinjiang has always been the region's principal economic center. The "Silk Road" had two routes—central and southern—from southern Xinjiang to western Asia. Of Xinjiang's 1949 population of 4,333,400, 70.3 percent was in southern Xinjiang, 4.2 percent in eastern Xinjiang, and 25.5 percent in northern Xinjiang. At the end of 1984, 47.2 percent of Xinjiang's population was in northern Xinjiang and only 46.8 percent was in southern Xinjiang. This process of change was not caused by movements within Xinjiang; the main cause was that the province's population influx was concentrated in the northern part. In eastern Xinjiang the population was always maintained at 5 to 6 percent of Xinjiang's total population. Fourth, the movement of the population deeply affected the age structure of the Han nationality population in Xinjiang. In the 1982 census, in Xinjiang the Han nationality population in the 35-44 age group stood at 14.6 percent, and in the general population in the nation as a whole this age group's population stood at only 10.2 percent. The population, at the end of the fifties and the beginning of the sixties, were youths at the right age to start working. Precisely in this period, the immigration, primarily of the Han nationality young work force, caused the present abnormal phenomenon in the age structure of the Han nationality population in Xinjiang. Fifth, a large number of immigrants brought with them the culture and customs and the language of their ancestral homes. In cities in parts of northern Xinjiang, many of them keep the style and features of the places they came from in the language and customs of the factories, mines, and residential areas they moved to. In the rural areas also, there are many places that are like villages in Henan and Jiangsu. At some corps farms the accent of the children

of the stock and workers is mainly that of the Henan dialect. The accent of the original Han nationality population in Xinjiang is a mixture of the Gansu and Shaanxi dialects, but in city and town areas where there are fairly many immigrants—like Shihezi, Karamay, and Urumqi—the accent of the generation is close to *putonghua*—standard Chinese.

Since liberation, Xinjiang has gone through a process in which there has been a large-scale influx of population from outside the region, and striking changes have occurred in the population structure. In particular, there are many areas in northern Xinjiang that are inhabited mainly by immigrants from the interior, but southern Xinjiang is still an agricultural area in which most of the inhabitants have lived for generations.

The large population influx in Xinjiang has promoted the development of the region's industrial and agricultural production. In particular, the development of science and technology and of education has improved the

quality of the general population. Because the distribution between areas in the region of the population influx is uneven, differences between areas in the levels of culture and development have evolved.

Xinjiang occupies a sixth of China's land area, and it is a potential target for population influx from densely populated provinces in the southeastern part of the country. Because Xinjiang has abundant mineral and petroleum resources, in the next century the focus of China's economic development will switch to the northwest. Following the exploitation and use of these resources, a large input of labor forces will certainly be needed. On the one hand, Xinjiang itself must accelerate the switching of surplus agricultural labor forces to secondary and tertiary industries in order to meet their urgent need for labor; on the other hand, Xinjiang will still need the influx of some labor forces from areas in China where the population is concentrated. As for the quantity of immigrants, this must be determined by the speed of Xinjiang's future economic development.

**Possible End To Appreciation of Taiwan Currency**

**40060653 Taipei TSAI HSUN in Chinese**  
**No 6, 1 Jun 89 pp 345-346**

[Article by Sung Tzu-Ping 1345 1311 1627: "Has the NT Dollar's Appreciation Run Its Course? Financial Trends Show Further Threat of Contraction"]

[Text] Following large-scale appreciation, the Taiwan currency, NT dollar [new Taiwan dollar] has recently been showing signs of gradual depreciation, but the interest rate is gradually rising. What influence will this have on the direction of capital flow and the movement of "hot money"? What sort of negative impact will it have on the stock market?

**NT Dollar's Appreciation Appears To Have Run its Course**

The Sino-U.S. exchange rate negotiations of March resulted in the liberalization of April 3 and a large-scale appreciation of the NT dollar vs the U.S. dollar. With the freeing of the exchange rate and the NT dollar's appreciation both proving satisfactory to the United States, the U.S. Treasury Secretary finally announced to the U.S. Senate on 4 May that there was no need for further appreciation of the NT dollar. The three-year appreciation of the NT dollar vs the U.S. dollar has finally come to an end. The NT dollar's U.S. dollar exchange rate has been depreciating from its 4 May position of 25.3 yuan, and has begun a process of gradual depreciation.

The NT dollar's continued depreciation vs the U.S. dollar has caused it to lose the attractiveness it held for arbitragers when it was appreciating, for which reason hot money from overseas will no longer rush into Taiwan in the future. The hot money that had been rushing into Taiwan in earlier days has gradually begun to leave. Since it was learned in Taiwan that Da La Luo [6671 2139 5700] had stated on 1 May in Beijing that the exchange rate of 25 NT dollars to the U.S. dollar was a reasonable one, banks have been selling more U.S. dollars than they have been buying. In the first half of the month, sales exceeded purchases by 316 million U.S. dollars, which is equivalent to approximately eight billion NT dollars. If the outflow of hot money steps up a notch, it could cause the unusually active stock market to lose its upward momentum for "lack of blood." If the stock market were to go into a slump, it would cause the outflow of hot money to speed up even further. At this time, approximately \$15 billion in hot money lingers in Taiwan, and it has earned a handsome profit of 33 percent. The original \$15 billion could now be exchanged for U.S. \$20 billion and taken out of the country. Even if only half of the hot money left the country, it would still be equivalent to an outflow of 250 billion NT dollars. A large outflow of hot money would force the NT dollar to depreciate further, and a sustained depreciation of the NT dollar would bring an end to the sure-fire foreign exchange profits that Taiwan's manufacturers have enjoyed for more than two years. Manufacturers who accepted orders at a loss in previous times

in order to bring in hot money will probably not be willing in the future to accept low-price orders with such abandon. The drain of domestic funds, the loss of foreign exchange profits for manufacturers, slumping exports, and worsening performances by stockbroking agencies, may have an impact on Taiwan's stock market and cause it to go into a slump.

**Hot Money Flows Out, Financial Markets Tighten Further**

The plan to control inflation approved by the Executive Yuan on 24 March includes steps to free up the exchange rate, speed up the NT dollar's appreciation, and control domestic price rises by lowering the price of imports. Another important method of controlling inflation is to adopt a foreign exchange policy of quick appreciation and gradual depreciation, and finally to chase away hot money with sustained depreciation. Therefore, for the foreseeable future, the Central Bank will certainly adopt a policy of quick appreciations and slow depreciations, as well as sustained depreciation, to chase away hot money which has lingered stubbornly for a long period. Furthermore, a sustained outflow of hot money would add to the effect of the credit squeeze that the Central Bank began to implement on 1 April. The outflow of hot money would make what was already a tight financial market in Taiwan even tighter, and interest rates, which had already been upwardly adjusted, would rise higher still. The annual growth rate of Taiwan's money supply has already fallen from the 29 percent figure of late March to 21 percent in late April. If and when it were to fall below 20 percent, or further still to below 15 percent, the domestic stock market's upward momentum would be obstructed of necessity by the drain of funds, and the market could even fall. Also, if short-term interest rates, which have already hit 12 percent, were to rise further, it would increase the financial burden on enterprise management. It would also increase the costs of manipulating the stock market and lower the profit ratio. These factors all would induce stock prices to fall rather than rise.

**The Direction of Capital Flow Will Influence the Future of the Stock Market**

The difference between interest rates in our two countries is another factor influencing the direction of capital flow. A rise in interest rates causes capital to flow in and the currency to appreciate. A drop in interest rates causes capital flow to out and the currency to depreciate. For this reason, many people believe that the recent large-scale rise in Taiwan's interest rates will cause hot money to flow in once again, and will spur further appreciation of the NT dollar, for which reason we will not only be unable to check inflation, but the prices of stock and housing will also continue to climb.

The situation described above does not present a problem vis-a-vis the United States, because the 10.5 percent annual prime interest rate of Taiwan's three commercial banks is still one percentage point lower than the 11.5 percent rate in the United States, and the

effective interest rate remains so after inflation has been accounted for. Vis-a-vis the world's major countries, the level of interest rates in Taiwan only attracts an inflow of the Japanese yen. The current Japanese long-term prime interest rate is 5.7 percent, which is only half of ours. As for their 4.7 effective interest rate, it is also 0.9 percentage points lower than our annual interest rate, which stands at 5.6 percent. However, interest rates are not the only factor deciding the value of a country's currency and the direction of its capital flow. This applies particularly to the direction of capital flow.

If the NT dollar depreciates by more than one yuan during the next year (i.e.—more than four percent),

incoming Japanese yen would make no profit on the interest rate discrepancy. If we factor in individual countries—Korean interest rates are higher than Taiwan's, and the Korean won will continue to appreciate sharply for the foreseeable future—it would be far more profitable for Japanese yen to enter Korea than to come to Taiwan. Further observation is needed before we can affirm whether or not the coming rise of Taiwan's interest rates will bring on the side-effect of an inflow of hot money. However, foreign exchange statistics from the first half of May indicate that much hot money has flowed out.

**END OF**

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